Master's Thesis

Helsinki School of Economics and Business Administration

International Business Faculty

Resource-Based Internationalisation of Professional Business Services: Case Study of the Finnish New Media Industry

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Abstract

October 23, 1999

Tommi Pelkonen:

Resource-Based Internationalisation of Professional Business Services:
Case Study of the Finnish New Media Industry

Objectives

Main objective of the research is to analyse the internationalisation patterns on professional business services. The special study focus is in the new media industry. Three objectives were set to the research:

- To identify the Finnish new media industry and its potential for internationalisation
- To analyse the new media industry's internationalisation patterns in both company and industry levels
- To analyse the new media industry's business network, its structure and its dynamics

In practice this meant answering to the following research questions:

1. What are the characteristics of new media industry as a professional business service?
2. What resources are new media companies utilising and lacking of in internationalisation?
3. What are the modes in use and to be used in internationalisation of the industry?
4. How can additional resources be obtained by utilising business networks?

Theoretical Approach and Research Methodology

The theoretical approach of the research was to utilise the theories presented on service business, professional business services, stages model of internationalisation, resource-based analysis and network based operations. These lead to forming four hypotheses and a theoretical model for industry level network analysis.

The research findings were based on multiple methods: a literature review, an industry survey of 73 Finnish new media companies, 12 general half-structured interviews and two in-depth case analyses. The fieldwork of the research was carried out between Autumn 1998- Autumn 1999. The findings tested the hypothesis and the model and they were revised on the basis of the field study.

Main findings

On the basis of the research seven conclusions of the situation of the Finnish new media industry could be drawn. These are in their logical order:

- New media business (interactive media service provision) is at its basics a professional business service and has similar problemacy in its international expansion to other service companies.
- New media business is by its birth very global and the companies operating in the industry carry heavy service and know-how export potential.
- The Finnish new media industry is already in some markets in "late starter" situation. On the other hand the companies are able to arise to be "international among others" by own actions and by technological advancement.
- The success of the industry is heavily dependant the companies' capability to meet the requirements of the customers and leverage its existing customer relationships.
- Product innovation in the industry requires flexible coalitions crossing traditional industry barriers. The number of these will grow with technological advancements.
- The main resource shortage for the Finnish new media companies' internationalisation is the lack of skilled personnel.
- Financial capital is available in the markets. Yet, the Finnish companies are not experienced to work with external financiers and high growth requirements

In addition, there were four hypotheses phrased and tested as well as a model analysing the new media industry's business network. These are presented in the research conclusions.

Keywords

Internationalisation, new media industry, internet, resource-based, business network, professional business service, born global

Tiivistelmä

23.11.1999

Tommi Pelkonen

Asiantuntijapalveluliiketoiminnan resurssipohjainen kansainvälistyminen: tapauksena Suomen uusmediatoimiala

Tutkimuksen tavoitteet

Tutkimuksen päätavoite oli analysoida asiantuntijapalveluliiketoiminnan kansainvälistymisen pääpiirteitä. Erityisen tarkastelun kohteena uusmediatoimiala Suomessa. Tutkimukselle asetettiin kolme tavoitetta:

- Määrittää uusmediatoimiala ja arvioida sen mahdollisuuksia kansainväliseen toimintaan
- Analysoida uusmediatoimialan kansainvälistymisen malleja yritys- ja toimialatasoilla
- Analysoida uusmediatoimialan liiketoimintaverkostoja ja niiden dynamiikkaa

Käytännössä tämä tarkoitti vastaamista seuraaviin tutkimuskysymyksiin:

1. Mitkä ovat uusmediatoimialan ominaisuudet asiantuntijapalveluna
2. Mitä resursseja uusmediayritykset käyttävät ja ovat vailla kansainvälistymispyrkimyksissään?
3. Mitä kansainvälistymisen eri muotoja uusmediayritykset käyttävät kansainvälistymisessään?
4. Miten uusmediayritykset voivat hankkia lisäresursseja hyödyntämällä yritysverkostoja toiminnoissaan?

Teoreettinen näkökulma ja tutkimuksen toteutus

Tutkimuksen teoriapohja muodostui palveluliiketoiminnan, asiantuntijapalveluiden, vaiheittaisen kansainvälistymisen, resurssipohjaisen analyysin ja verkostopohjaisen toiminnan teorioille. Niiden perusteella tutkimuksen yhteydessä tuotettiin neljä tutkimushypoteesia ja teoreettinen malli toimialatason verkostoanalyysille.

Tutkimustulokset perustuivat monen eri menetelmän samanaikaiseen hyödyntämiseen. Aineisto koostui kirjallisuuskatsauksesta, 72 suomalaisen uusmediayrityksen kyselytutkimuksesta, kahdestatoista puolistrukturoidusta yleishaastattelusta sekä kahdesta tapausanalyysista. Kenttätutkimus toteutettiin syksyn 1998 ja syksyn 1999 välisenä aikana. Tutkimustuloksilla testattiin hypoteeseja ja teoreettisen mallin toimivuutta. Tulosten perusteella mallia tarkennettiin.

Tärkeimmät tutkimustulokset

Tutkimuksen perusteella voitiin tehdä seitsemän johtopäätöstä suomalaisen uusmediatoimialan tilasta. Nämä esitellään alla loogisessa järjestyksessään:

- Uusmedialiiketoiminta (interaktiivisten palveluiden tuottaminen) on pelkistettynä asiantuntijapalvelun tarjoamista ja sen kansainvälistymiseen liittyvät ongelmat ovat hyvin samankaltaisia muihin asiantuntijapalveluihin verrattuna.
- Uusmedialiiketoiminta on perusolettamuksiltaan hyvin kansainvälistä toimintaa. Toimialan yritykset pitävät hallussaan osaamista, jolla on merkittävä vientipotentiaali.
- Suomalaiset uusmediayritykset ovat joillain toiminnan alueilla ja markkinoilla “myöhäisen aloittajan” asemassa. Kuitenkin, omilla toimillaan ja teknologian kehittymisen myötä yritykset voivat saavuttaa “kansainvälisen toimijan” aseman.
- Suomen uusmediatoimialan menestyminen on suuresti riippuvainen yritysten kyvystä toteuttaa asiakkaidensa tarpeet ja hyödyntää olemassa olevia asiakassuhteitaan toimintansa laajentamisessa
- Tuoteinnovaatiot uusmediatoimialalla edellyttävät joustavia perinteiset toimialarajat ylittäviä yritysliittoumia. Näiden yhteistyömuotojen odotetaan yleistyvän teknologian kehittyessä
- Tärkein suomalaisen uusmediatoimialan kansainvälistymistä rajoittava tekijä on pula osaavasta
- Kansainvälisillä markkinoilla toimivien suomalaisten uusmediayritysten tueksi on tarjolla runsaasti pääomasijoittajia. Kuitenkaan toimialan yritykset eivät ole tottuneet toimimaan ulkoisten rahoittajien ja kovien kasvutavoitteiden kanssa.

Tutkimuksen yhteydessä testattiin myös neljää väittämää toimialan kansainvälistymisestä ja luotiin malli kuvaamaan toimialan yritysverkostoa. Nämä esitellään tarkemmin tutkimuksen johtopäätöksissä

Avainsanat

Kansainvälistyminen, uusmediatoimiala, intenet, resurssipohjaisuus, yritysverkostot, asiantuntijapalvelut, born global

Forewords

Writing of this thesis has been a long-term project for me. The perspective, I would like to base my analysis on, changed several times during the two years writing. First, I had plans of looking the phenomena from the more traditional perspective, the printing industry's. Second, the interest was on strategic alliances, mergers and acquisitions. Finally, the experiences from working as a project manager in the Interactive Media Group of LTT-Research Ltd. opened the point of view for me - my thesis would discuss the internationalisation of the Finnish new media SMEs.

This thesis is a combination of several fascinating business theories about service business, competitive advantage, business networks and internationalisation. It presents the most recent findings from the market studies of the internet-based new media industry. Additionally, the thesis will form new tools to be used in the further analyses of the industry.

Internationalisation has become nearly compulsory to Finnish companies in their search for growth opportunities. The new media industry is no expectation in this. The recent global market success stories of Finnish high-tech companies, such as Nokia and Sonera, have opened up a window of opportunity for Finnish SMEs. This thesis aims to assist them in analysing their opportunities and forming strategies for the international entries.

The thesis continues the research series of the Finnish new media industry. The work was started in 1997 by the first market study of the Finnish New media markets. There are at the moment a total of seven publications to discuss the problemacy of the industry. Though, being a Master's thesis for the Helsinki School of Economics and Business Administration, this research will continue the series with a more theoretical approach to the issue. I hope that the research findings will contribute to the academic discussion and bring some managerial ideas to the industry.

I would like to take the opportunity to thank all the people who have assisted me during the thesis writing. Especially I like to give my love to Laura who has with strong belief and patience helped and supported me during the process. Also I would like to thank the open attitude of the analysed companies. Without their willingness to assist me and to share their experiences, this research would have been very difficult to carry out.

In Helsinki, 23rd November, 1999

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PART I: Introduction

1. Introduction

This opening chapter will introduce the research topic: the internationalisation of the Finnish new media industry. The research problems will be defined and the main concepts will be introduced. The report structure will be presented as well as the basics of the research methodology. Also there is a small insight to the most recent research of the topic. The actual discussion of the topic will start from the following chapters.

1.1 Finnish Interactive Service Provision at the stage of internationalisation

Communications technologies have revolutionised the business environment during the last few decades. Information spreads around the globe at a pace never seen before in human history. Via modern communications networks, it is possible to access sources that were earlier totally unreachable independent of geographical locations. Moreover, modern and rapid transportation and logistics systems have enabled the trade of more traditional goods though the networks, also globally.

The last phase in the communications development began with the formation of graphical browsing capabilities in the early 1990s to the academic non-commercial network existing since 1960s - the internet. This created an exponentially growing interest for utilising internet technology in business. Throughout the second half of 1990s the internet has grown to be one of the most influential networks with nearly half billion users around the globe. The growth keeps on accelerating. One of the most recent trends for the emerged industry is the mobile internet access.

Finland has been one the leading countries in using network based services, at least when measured in the terms of number of internet hosts or number of persons connected to the network. Finland is also one of world leaders in the development of mobile communication networks and terminals. Yet, there is still only a small number of Finnish success stories in the new business environment.

The new competitive environment enables also very small companies to serve global customers and consumers. The new services need their creators and experts. In Finland the industry for interactive services and applications had its early years in the early 1990s with the first multimedia companies. The most recent growth phase started in the mid 1990s and at the moment there are around 300 companies which create a turnover of estimated FIM 900 million in 1999[1]. These companies form a very turbulent industry that has been called in several studies "the new media

This research will discuss development of the Finnish new media industry in the light of recent internationalisation theories. The main objective is to find out the internationalisation patterns in the industry. The Finnish new media companies have reached in their growth the stage where the domestic markets do not offer sufficiently business opportunities. They are seeking for international markets and creating partnerships around the world. Special emphasis will be put into the analysis of the business network of the companies. The industry is supported strongly by the global financial markets and this puts also an interesting point of view to the analysis.

In addition, the industry is analysed through the theories created of professional service business. The originally technology or design -originated companies have started to work more and more professionally and the industry has picked up characteristics from advertising agencies, consulting and software companies as well as from technical service companies.

[1] Kuokkanen & al., 1999

A model for structuring the new media business network will be presented as a result of the analysis. It will bring several new dimensions to both practical and academic discussion. The main contribution of the research will be in utilising the network theories of internationalisation to a very dynamic and globalised environment. This is of great interest to all the related parties.

The research was carried out by B.Sc. Tommi Pelkonen at the Helsinki School of Economics and Business Administration. He has worked as project manager in the Interactive Media Research Group, one of the business school's research units. The empirical data of research is partly parallel to earlier studies of the unit. Though, the theory, parts of the interviews and the two cases will bring completely new material to both the industry and academy.

1.2 Previous Research

The new media pheromone has been of substantial research interest during the last few years. The following list presents some of the most interesting studies and reports for the objectives of this research.

- Kuokkanen, Toivola & Väänänen (1999): Uusmediatoimiala Suomessa 1999 (New Media in Finland 1999)

  This study analyses development of the Finnish new media industry in detail. It is continuation to the co-operation between the HSEBA's Interactive Media Group (IMG) and University of Design and Arts MediaStudio -projects. This work started with a the first Finnish market study published about the industry in 1997. The study has a strong areal focus and reflects also the opinions of the new media clients are reflected in the report.

- Helomaa & Väänänen (1999): Uusmediatoimian kriittiset osaamisalueet 1999 (Critical knowledge areas of the Finnish New Media Industry 1999)

  This IMG-report identifies knowledge needs for a company operating in the new media industry. It analyses the critical knowledge areas and points out some interesting characteristics of the industry.

- Pelkonen (1999): Uusmediatoimialan toimenkuvat ja osaamistarpeet 1999 (Job Profiles and Educational Needs in the Finnish New Media Industry 1999)

  This IMG-report published by the Finnish Ministry of Labour and European Social Fund analyses the educational needs in the Finnish new media industry. It identifies the production process of the companies and forms the critical job profiles that exist in the industry. In addition, the study collects the opinions of the companies of the present educational system in Finland.

- Jokinen (Ed.) (1999): Suomalainen uusmedia: Eväät kasvuun ja kansainvälistymiseen (New Media in Finland: Keys to growth and internationalisation)

  This article collection will reflect some opinions of the internationalisation in the Finnish new media sector. It comes up with several interesting suggestions about the industry's future and about the importance of business networks. The report is not a actual research publication, but rather a collection of different point of views.

- Kasanko & Tillikka (1999): Osaamisintensiivisen palvelusektorin kehitys Suomesa (The development of the Knowledge Intensive Service Sector in Finland)

  This very comprehensive study analyses the Finnish service industry according to its knowledge intensity. It identifies six core and five supplementary groups of services that together form the knowledge intensive service sector. Estimates of economical impact are also presented.

- Ruokonen & Väänänen (1998): Uusmediayritysten verkostoituminen ja tuotantoprosessit (Networking and Production Processes of the New Media Companies)

  This study introduces concepts the value networks in the new media industry. It analyses three production cases in the industry and form very model of different roles that the new media company has to operate in during its production processes

- Kailaranta (1998): Kansainvälistyvän pk-yrityksen vahvuudet ja kehittämistarpeet (Strengths and Development needs of an internationalising SME)

  This study analyses the internationalisation patterns of small and medium-sized Finnish companies, their obstacles, strategies and resources for internationalisation.

- Eräheimo, Granfelt & Laureen (1996): Pk-yrityksen kasvun lähteet ja esteet - casekohteina nopean kasvun yritykset (Sources and ostacles for SME Growth - cases from high growth enteprises

  This research presents a cyclical model for developing high-growth companies and its resources. The model explains the dynamics of successful growth enterprises.

- Jonninen & Granfelt (1995): Yrittäjien yhteistyöasenteet ja verkostoituminen (Co-operative attitutes and Networking)

  In this study the co-operation and networking is analysed as a strategic function for an SME. It is a very comprehensive approach to the networking between Finnish companies.

- Pietikäinen & Tynnilä (1994): Obstacles and Strategies of the Internationalisation of Finnish Service Companies

  This comprehensive study analyses the internationalisation patterns of six Finnish service sectors. These are analysed by their level of internationalisation, operations in use and by the obstacles encountered in the process.

It can be noted from list presented above, that there exits an research gap for internationalisation of the Finnish new media industry. Also it can be noted that there does not exist any research written in English about the industry. This research aims to fill these gaps. This is a logical continuation for the new media research series and will offer an interesting insight to the rapidly developing industry.

1.3 Research Objectives

Main objective of the research is to analyse the internationalisation patterns on professional business services. The special study focus is in the new media industry. Three objectives were set to the research:

- To identify the Finnish new media industry and its potential for internationalisation
- To analyse the new media industry's internationalisation patterns in both company and industry levels
- To analyse the new media industry's business network, its structure and its dynamics

In practice this meant answering to the following research questions:

1. What are the characteristics of new media industry as a professional business service?
2. What resources are new media companies utilising and lacking of in internationalisation?
3. What are the modes in use and to be used in internationalisation of the industry?
4. How can additional resources be obtained by utilising business networks?

The research was divided into four stages and based on multiple methods. First, a literature review was carried out and was based on both academic and business journals. Second, a industry survey was done in Autumn 1998. Third, industry insight is brought to discussion via 12 interviews carried out also during autumn 1998. Fourth, two in-depth case analyses were carried out during Spring-Summer 1999. The research methodology will be discussed in more detail in chapter 6.

1.4 Limitations

The research topic was limited as follows:

- The *economic impacts for the Finnish Economy will not be discussed*, only the size of industry and employment effect will be presented. This due to problemacy of limiting the effect of the phenomena.
- The *theoretical discussion will not go into details of academic debate*, but rather present multiple theories that can be used to explain the highly dynamic industry. This is due to the fact that the industry is very new and non-structured. Thus multiple approach will guarantee the quality of the analysis.
- The *business network analysis will not be detailed, but rather a broad description*. Detailed descriptions and relationship bond analyses cannot be included into a industry level analysis. They are discussed briefly at the case analyses, but are not the main focus of the reserach.
- The research is both explorative and illustrative. It will describe the situation for internationalisation in the new media industry and also present a model for understanding the new media business network. *The model will not be based on detailed quantitative data, but rather on qualitative conceptualisation*. Thus, the presented arguments about industry's competitive situation or edges may differ from the ones that are experience in practice.

1.5 Definition of the New Media Industry

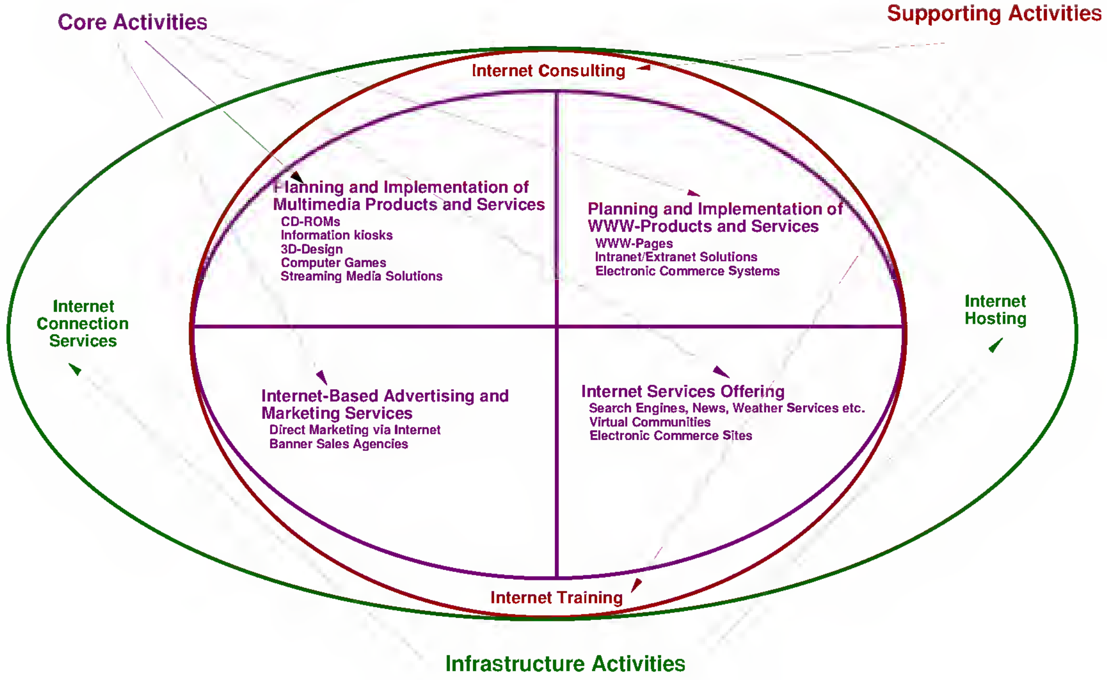
New media activities are difficult to limit to a covering definition of an industry. The industry is developing at a very rapid pace and thus most of the terminology and activities used, becomes old and inadequate in only few years time. The most commonly used is the concept developed by the Interactive Media Group at the Helsinki School of Economics and Business Administration[2]. This definition is further developed to the purpose of this study. In the definition, there are four core activities form the new media industry:

- Planning and implementation for multimedia products and services
- Planning and implementation of WWW products and services
- Internet-based advertising and marketing services
- Internet service offering

In addition, the industry includes two supporting activities: Internet consulting and training, as well as two infrastructure-related activities: Internet hosting and Internet Connection Services. The definition and more detailed activity lists are presented in Figure 1. Most of the companies in the industry operate at least in one core activity and is one of the supporting or infrastructure activities. The actors in the industry are discussed in more detain in chapter 6.1.

[2] Kuokkanen & al., 1999

Figure 1: Activities in New Media Industry



Source: modified from Kuokkanen & al. "Uusmediatoimiala Suomessa 1999", p.12

Interactive media service companies have also been defined[3] according to their production process. There are several dimensions in this kind of definitions, e.g.:

a) *activity objectives* (what is to be produced?),
b) *activity object* (what material is produced, transformed or modified?),
c) *activity equipment* (what equipment is used in the process?) and
d) *actors* (who or whom carries the production out?)

The main objective for a company operating in the new media industry is to *create substantial benefit for its clients with the help of new technologies*, e.g. internet technologies. The work objects are *digitally formatted text, picture, voice, video and database materials*. These are modified in a way that they can used and consumed with various information technology equipment, e.g. personal computers or mobile phones either locally or through data networks.

The new media companies use in their production process *computers, data networks and equipment, software and programming languages* closely related to them. The new media production process is carried out *by professional experts*. They create in close relationship with the customer information system or product to be consumed and utilised by the client. In addition, the new media companies offer training and consulting services related to their field of expertise.

1.6 Report Structure

This research report consists of five parts and eleven chapters. The report has been written with easy reading style so that in the beginning of each chapter there are few sentences in explaining the contents and logic of the chapter. The structure of the report is summarised in Figure 2 on the next page.

[3] Pelkonen, 1999, p. 37

Part I defines the research objectives and introduces to the research topic. The concept of new media is defined and the research questions are set.

Part II presents the theoretical background for the research. In chapter two the focus in on professional business services. In chapter three an interesting business theory about networking between companies is presented. Chapter four introduces to the main research topic of this report - internationalisation.

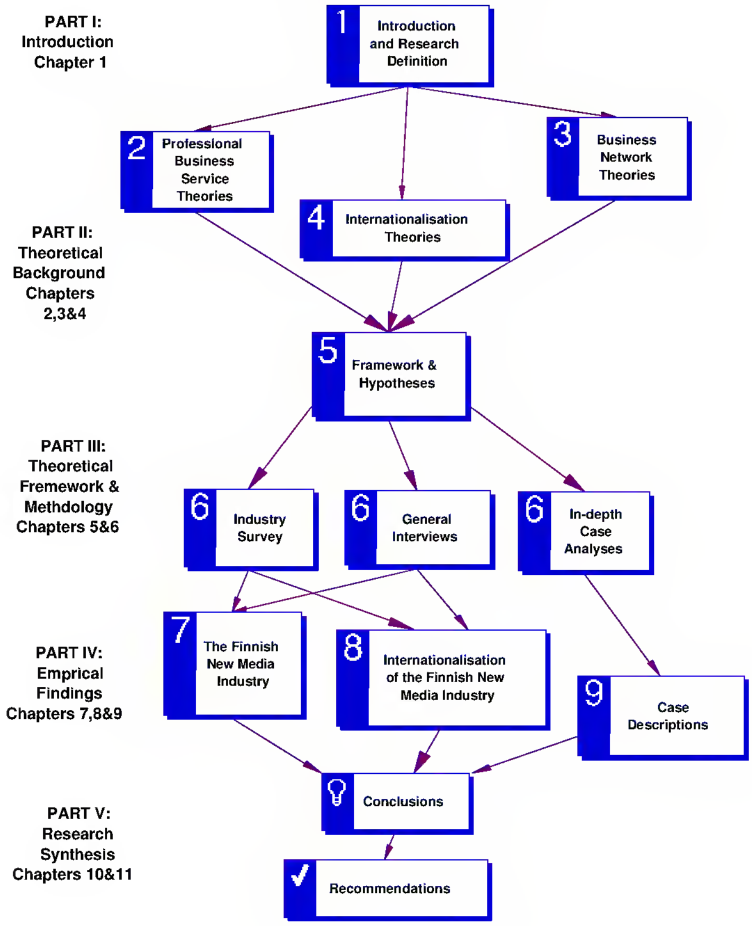
In **Part III** the theoretical framework for the research is presented. There will be four hypotheses and a model to be tested at with the field survey. Chapter six presents the research design and comments on the quality of the findings.

Part IV is about discussion and presentation of the actual findings from the Finnish new media industry. First, a general picture is formed about the industry. Second, the internationalisation is discussed from the perspective derived from the industry survey and interviews. Finally, two case studies of the internationalising companies are presented.

Part V concludes the research. The main findings of the research are presented in chapter ten. Also a model of the new media business network will be shown. Chapter eleven sums up the theoretical contribution of the research, brings up the managerial recommendations to the industry and finally presents ideas for further research.

At the end of the report are the interview schemes, questionnaires and analysis framework used in the study. As the operating language of the research was the mother-tongue of the companies, these are in Finnish. At the last pages of the report, the list of references is presented.

Figure 2: The Research Report Structure



PART II: Theoretical Background

2. Professional Business Services

In this chapter the emphasis is first to define services according their characteristic and to form a picture of professional business services, into which the main research subject, the Finnish new media industry belongs. Second, this chapter looks at the Finnish markets for services to form a more picture of the strategic importance of them to the national economy.

2.1 Defining and Classifying Services

This chapter will first define services in a broader sense and then come up with more detailed definition of professional business services. Also knowledge is discussed as the main competitive factor for professional service firms.

2.1.1 General Service Definitions

There are many approaches to define that what a service is. A common approach to look at differences between the trade of goods and services. Aharoni[4] points out that trade goods are tangible while services are intangible. The customer using a service is paying for information or quality of performance. Aharoni adds that goods can be counted in physical quantities, while a service can be measured only by the duration and intensity given to the user. Aharoni states that different researchers' definitions can be summarised into four main characteristics of a service:

- **Intangibility**: service is evaluated and observed in subjective manner, it is often difficult to objectively evaluate its quality
- **Simultaneity**: the consumption and production of service is most often simultaneous, a service can not be stored
- **Inseparability**: service is directly embedded in the direct relationships between the customer and the producer of a service
- **Heterogeneity**: in service business it is nearly impossible to offer standardised production, the quality and method of delivery varies even in the same service between implementers and companies

Aharoni states also that services can also be defined by their method of delivery. In practise this means division between equipment-based and people-based services. Professional business services, e.g. interactive media services, demand high skilled people, and can be seen as people-based.

2.1.2 Classification of services

Kasanko and Tillikka[5] have created a framework for classifying services. It has four main classes and several subclasses. The four main classes are defined by a) function and characteristics of the service, b) production factors, c) producer background and d) consumption of the service. The main classes and subclasses can be illustrated with a figure presented here below. It is to be noted that the main classes are supplementary to each other. One service can be defined by all the four main classes.

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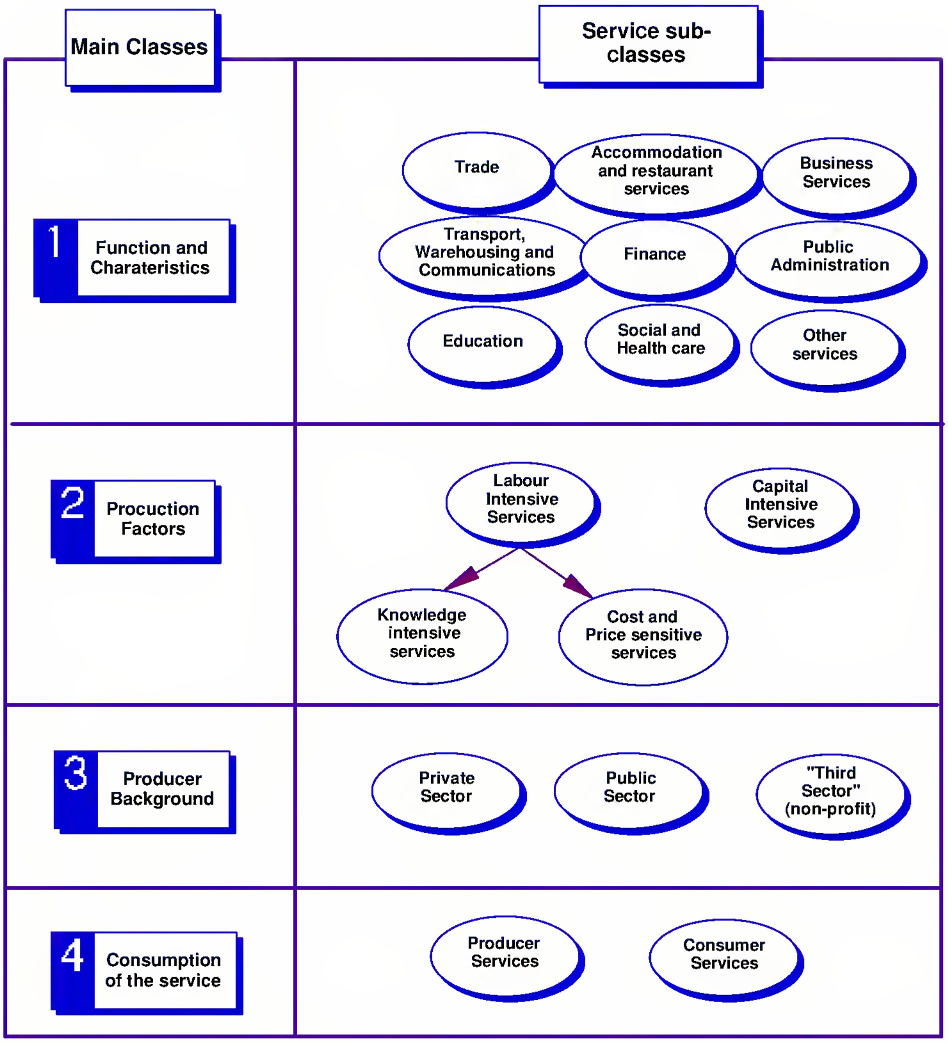
[4] Aharoni, 1993, p.3-4

[5] Kasanko & Tillika, 1999, p.12-17

Figure 3: Classification of Services



Source: modified from Kasanko & Tillikka, 1999, p. 17

First, services can be classified by their *function and characteristics*. The sub-classes in this can be e.g.

- Trade
- Transport, Warehousing and Communications
- Education
- Accommodation and Restaurant services
- Financial Services
- Health care and social services
- Business Services
- Public Administration
- Other Services

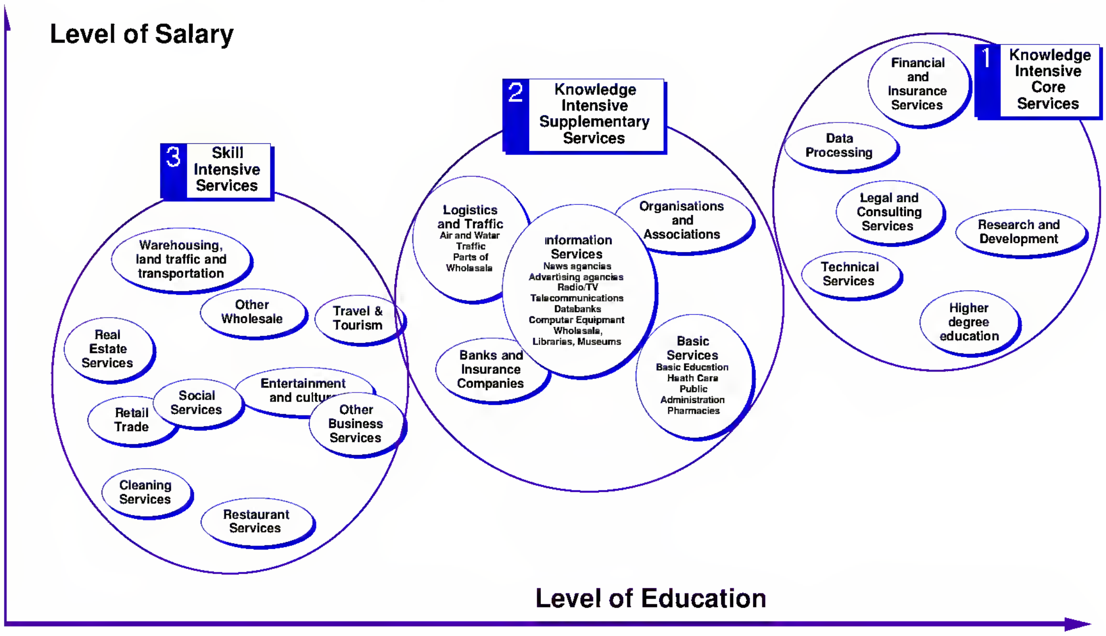
Second, services can be classified according to their *intensity of resource utilisation*. This class includes labour and capital intensive services. In addition, labour intensive services can be divided into knowledge intensive (e.g. consulting services) and cost and price sensitive services (e.g. hair dressers).

Third, the *service producers background* can be a classification factor. There are three sub-classes in this class, private, public and third sector services. With third sector it is referred to the services that are operating mainly on non-profit basis, e.g. organisations and associations.

Fourth, services can be described by their *target or user perspective*. There are business-to-business oriented (producer oriented) and consumer-oriented services. The first segment aims their services to other companies or organisations while the latter to the individual consumer.

Kasanko and Tillikka take their classification of services to a new dimension: they classify them according to their knowledge intensity. The main variables used in this classification are the *level education and the level of salary of the personnel*. They come up with six core industries where knowledge is the key to success and with five supplementary service industries. Their findings are presented in Figure 4. In the figure the dimension apply both between the main groups and the service sectors within one group.

Figure 4: Services by Knowledge Intensity



Source: modified from Kasanko & Tillikka, 1999. p. 122

The core knowledge intensive services (KISs) are: financial and insurance services, data processing, legal and consulting services, research and development, technical services and higher degree education. Kasanko and Tillikka define KISs as crucial for the competitiveness of the nation, "locomotives of the economy". The supplementary services groups are: logistics and traffic, information services, organisations and associations, basic services and information services. All the knowledge intensive services are discussed in more detail in the chapter 2.2. The emphasis will be defining their importance to the Finnish economy.

Interactive Media Services Defined by Service Classes

The field of interactive media includes several services that can be included into most of the main service classes. The service provision companies provide and create media services to nearly all the first class companies and organisation. During the first year's of the industry, new media was mainly communications related service creation. Yet, in the recent years, the industry has grown to include electronic-commerce. logistics, on-line learning, health care systems, public administration services, travelling booking systems, financial services etc.

It can be little doubt be argued that new media services are very labour and knowledge intensive. This is the most distinctive characteristics of the industry, it is as dependant of the skills of its individual employees as it is consulting or advertising agency business. New media industry

could be argued to have services that belong to both the knowledge intensive categories: core and supplementary services (see chapter 1.5, p.4).

Interactive media services are mostly sold to the various businesses but, on the other hand, they are often consumed by individual customers of the organisation. This makes special features to service planning. The main creator for new media has been the private sector, but also government have taken an very active role in utilisation of it.

2.1.3 Professional Business Services

Professional business services are services that other companies use in their own production process. In the previous chapter this group of services can be understood as producer service offered by private organisation to the business community. Faketekuty[6] defined PBS as the "*application of knowledge and skills by experts to meet the client's needs*". Furthermore, Aharoni[7] define them as: "*the provision of intellectual or specialised skills on personal, direct basis, based on extensive educational*

Aharoni[8] describes professional business services to possess the following characteristics

1. **Dependence on skilled individuals**
   They are highly skill intensive and scale is achieved by mainly having a large number of partners or highly skilled participants. PBS services are rarely capital intensive, rather skill intensive. *The key strategic resource for a PBS firm is the ability to attract high quality personnel and loyalty from skilled individuals.* Furthermore, the main strategic asset of PBS firms is their reputation - based on the availability of the skilled professionals. There are great gains to be achieved from training of these individuals. To conclude, human resource management becomes of utmost importance in the PBS firms. The skills of individual professionals in the PBS firms has to converted into its reputation.
2. **Customised service provision**
   PBS firms focus on exploring and solving a particular problem for a client. The service in nearly always unique. They have to offer custom-made solutions rather than a standard service. This *customisation involves a high level of customer-provider interaction.* The PBS firms have problems in the quality control of their services because each customer case differs. PBSs are based on creativity, innovation or pioneering of new concepts or non-routine ways of solving a problem.
3. **High-level of customer interaction**
   Customers must be actively involved in the creation of service, even perform some actions themselves via computer networks. PBS firms have to able to organise its production so that the customer feedback can be handled efficiently in the organisation. Most PBS services are advisory and success depends on the customers ability react to and implement the recommendations. The business is based on high trust. Customers must believe that the service is both necessary and accurately provided.
4. **Regulation of service providers**
   In some PBS services the entry to the market is highly limited to some licensed or accredited professionals. This applies especially to the juridical and auditing services. Governmental or professional organisations control and regulate provision of these services. Yet, in some other services, i.e. marketing agency, computer or interactive service provision, these restrictions do no appear.
5. **Dependence on the reputation**
   Customer of a PBS firm makes its purchase decision under uncertainty, it can not be sure of

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[6] Faketekuty, 1986

[7] Aharoni, 1995

[8] Aharoni,1993, p. 129-131

the quality to be delivered by the firm. Therefore, the firm has to struggle to make its reputation as good and trustworthy as possible. Much of the professional work is based on trust. The client must believe that the professional service is both necessary and that it is well conceived. Aharoni[9] states that the reputation of a PBS firm the means of signalling quality. For the customer it reduces the effort and cost of seeking for service suppliers.

Lovendahl[10] has defined the characteristics of PBSs in more detail. He has several dimensions in his listing. These are presented in Table 1 and commented below.

Table 1: Professional Business Service Characteristics

Dimension	Professional Business Service Firms
Output	
• Tangible vs. intangible dominant	• Intangible
• Customised vs. standardised	• Customised
• Degree of deliverer judgement	• High
Supply	
• Constrained vs. unconstrained capacity	• Short term: constrained, Long term: less constrained
• Resource base	• People (professionals)
• Capital intensity	• Low/Strategic decision
• Number of service outlets	• Low/Strategic decision
Demand	
• Fluctuating vs. stable	• Moderately Fluctuating
Client Type	
• People vs. things	• People/Organisations
Delivery Process	
• Degree of client involvement	
a) in problem definition	• Moderate to high
b) in delivery	• Varies
• Place of interaction	• Site or Client offices
• Nature of interaction	
a) formal vs. informal	• Both
b) continuos vs. discrete	• Discrete/ad hoc
• Simultaneity in production and consumption	• Varying

Source: Lowendahl in Aharoni, 1993, p. 163

Lowendahl[11] highlights especially the following points from his listing of characteristics:

- The key strategic resource is the professionals
- The second most important strategic resource is the reputation of the firm and its experience record (portfolio of completed project)
- The technology of firm "black box" is embodied in individuals as well as processes/methods, but most of the knowledge is common knowledge to all the members of the profession
- Delivery is project based and ad hoc rather than continuous
- Output is highly customised and frequently requires innovative solution and hence operations are very hard to pre-define and standardise
- A large part of the production and delivery has to take place "on site" as defined by the client

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[9] Aharoni, 1995

[10] Lowendahl in Aharoni, 1993, p. 163

[11] Lovendahl, 1993

These findings are very similar to the characteristics presented by Aharoni earlier.

Positioning Professional Business Services into Knowledge Intensive Services

The definitions of professional business services (PBS) and of knowledge intensive service (KIS) sector are very similar in many extents. In this research these two are handled as parallel definitions of the same phenomena. The PBS is noted to be more precise, but on the other hand, KIS is a more holistic approach.

New media industry could be argued to be a knowledge intensive professional business service and thus possess characteristics from both definitions. The competitive factors in the knowledge intensive business will be analysed in the next chapter and it is to noted that these very theoretical concepts are applicable perfectly also in the later analysis of the new media industry.

Classification of New Media Firms

Helomaa and Väänänen classify new media companies into two classes according to their business ideas. These are *business process developers* and *communications solutions providers*[12]. The former focuses on the development of the client's business processes with the use of internet technology. The latter is mainly focusing on improving the communications of the customer. The latter can be further divided into two sub-classes: networked media and multimedia communication solution providers. The features of the two groups are presented in Table 2.

Table 2: New Media PBS Firms Types and Their Features

	Business Process Developers	**Communications solution providers**
Sub-classes	• none	• Networked media • Multimedia
Services	• Aim to develop customer's business processes to be more efficient with utilisation of internet-technologies • Internet, intranet and extranet-solutions • Proprietary systems customised to customer's needs	• Development of customer's communication • Focus on graphical outlook, innovative design or service usability • Highly customised products
Critical knowledge	• Technological know-how	• Communications and design know-how
Organisation type	• Efficiency-focused	• Expertise-focused

Source: modified from Helomaa & Väänänen, 1999, pp. 59-61

Helomaa and Väänänen argue that identification of the business idea/focus of the new media company between the two classes assist in analysing the company features. They state that the business process developers are more similar to efficiency-based project organisation (see Table 3 on the next chapter), while communications solutions providers are more similar to the expertise-based organisations. Yet, both groups of companies recruit personnel with high talent and skills due to the rapid development of the industry. Though, the production processes of the companies may become very efficient, the employees need to update their knowledge constantly. One way of carrying this out is to recruit new personnel with new skills.

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[12] Helomaa & Väänänen, 1999, p.59-61

2.2 Competitive Advantage in Professional Business Services

Knowledge as a Product

According to David Maister[13] PBS firms can sell three things (three E's). Any specific firm can specialise in one of these. These are:

- Expertise
- Experience
- Execution capacity (or Efficiency)

Expertise is crucial when customer has a high-risk, complex, unusual problem. Experience in needed when past experience is needed to solve a problem. Execution capacity in needed where service has to be provided promptly and efficiently, e.g. in auditing or in market research.

Fahy[14] points out that service firms' competitive advantage is in the possession of unique resources and capabilities. Those of these that meet strict conditions of value, rareness, immobility and barriers to imitation, can be created into advantages in business competition. The actual factors to be analysed depend on the nature of the service and on the nature of the industry as well as the characteristics of the company and the target market.

Professional Business Service Project Types

Maister[15] classify PBS projects according to their requirements to knowledge into expertise, experience and efficiency - based projects. Each of these demand different skills, organisation forms, personnel, management styles and marketing methods. The main characteristics of them are presented in the Table 3.

Table 3: PBS Project Types and Their Features

Feature	Expertise-based	Experience-based	Efficiency-based
Services	• Highly customised	• Less customised, some standardisation	• Highly standardised
Clients	• Innovative and challenging problems, • No previous experience in similar problems exist • Creative solutions needed	• Very specific problems. • Problem solving based on accumulated knowledge in to the PBS firm	• Clearly structured projects, generic tasks • Problem solving according to pre- defined process • Decisions based on price, reliability and execution capacity
Organisation structure	• Light structures • Flexible and one leader focused	• More hierarchic • Team work important • Clear operative instruction needed	• Hierarchic • Technology can replace personnel in some tasks • Continuos efficiency control
Personnel	• Very talented • Competition-oriented, • Top skills • Mostly seniors	• Less competition-oriented • Both creative and effective • Seniors and juniors	• Effective and task-oriented • Mostly juniors
Marketing	• Articles, books and con-	• Focus on promotion of	• Concentration on corpo-

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[13] Maister, 1986

[14] Fahy, 1996

[15] Maister, 1993, p. 22

methods	ferences	the experience track	rate brand

Source: adapted from Maister, 1993

Competing with Knowledge

The main competitive factor in professional businesses can be argued to be in the level of knowledge and expertise of the organisation. It is very challenging to analyse the abstract concept of knowledge, as there is no single definition for it. Generally there is a common agreement that there are three levels: data, information and knowledge. These can be characterised according to their characteristics e.g. as follows:[16]

	Description	Creation
Data	Pure data, non analysed	Collection of data
Information	Analysed data, classified according to similarities	Classification and calculations of data
Knowledge	Rules, models, concepts formed from the basis of analysed information	Created by information analyses and learning processes

Source: modified from Kasanko & Tillikka, 1999 , p. 34-35

Service companies have to organised in a way that its capabilities to offer services are difficult to imitate. Aharoni[17] points out that main source for a competitive advantage of a PBS firm lies in a superior organisation or culture, independent of external factors. Most PBS firms base their businesses on the knowledge gap between the firm and its client. Much of this knowledge is created by the PBS firm itself.

Nonaka and Takachi[18] have analysed the concept of knowledge and expertise in very detail. They argue that knowledge has two dimensions: explicit and tacit levels. Companies in western industrialised countries have focused on the former, while the competence of eastern companies is, according to Nonaka and Takachi, based on the latter. They claim that the tacit knowledge is more valuable and numerous than explicit knowledge. Nonaka and Takachi state that tacit knowledge is created on situations "here and now" while explicit knowledge was created "there racteristics of the two classes are presented here below

Subjective Tacit Knowledge	Objective Explicit Knowledge
• Knowledge of experience (body)	• Knowledge of rationality (mind)
• Simultaneous knowledge (here and now)	• Sequential knowledge (there and then)
• Analogue knowledge (practice)	• Digital knowledge (theory)

Source: Nonaka & Takeuchi, 1995

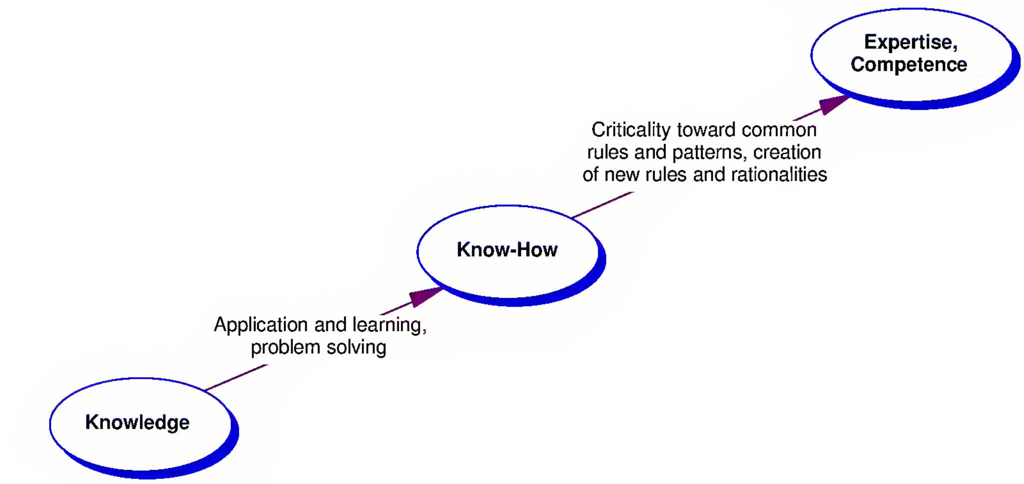
[16] adapted from Kasanko & Tillikka, 1999, p. 34

[17] Aharoni, 1993, p. 16

[18] Nonaka & Takachi, 1995

Knowledge has a substantial value as itself, but he most significant implication of this approach is gained by combining it to the production processes of professional business firms. They seek to create know-how for handling new social situations and expertise in their field of business. These are related to the concept of knowledge as presented in Figure 5[19]:

Figure 5: Knowledge, Know-How and Expertise



Source: modified from Kasanko & Tillikka, 1999, pp. 34-35

Kasanko and Tillikka argue that know-how is reached by applying and learning to use knowledge in varying situations, also in problem solving. Moreover, a company willing to develop expertise in certain area should be able to criticise the existing rules and patterns and create new ones.

Lehtimäki[20] defines a knowledge-based organisation in a way that most new media companies can also be included in. The characteristics are:

- Human resources form the most significant portion of corporate capital
- Knowledge level of the organisation is high
- The object for productions is information either in written, spoken, audio-visual or electronic format
- The consumption of the product involves cognitive participation from the producer and/or the consumer/client
- The produced service has value to its user, but it is very difficult to sell to any other user due to high level of customisation
- The producing organisation bases its operation on storing, creation, development, transferring and applying knowledge

The services offered by the knowledge organisations could be defined as constant problem solving processes between the client and the experts in the producing organisation. The presented characteristics are also very similar to the PBS or KIS definitions presented earlier in this chapter.

Nonaka[21] states that a knowledge intensive organisation should be able to create a strategy in which knowledge gathering, creation, utilisation and development form a cyclical process of interactions. He calls an organisation with this kind of strategy as "hypertext"-organisation. It

[19] adapted from Kasanko & Tillikka, 1999, p. 35

[20] Lehtimäki, 1996

[21] Nonaka, 1994

should be able to utilise information in very variable circumstances. According to Nonaka[22], knowledge is created at its best in "ad hoc"-organisations. Yet, for application or searching of existing data hierarchical forms of organisation is the most beneficial form of operation.

The strategies how a company can develop its organisation or become a leader in certain activities will be discussed in more detail in chapter 4.1.3 (p. 32). To a PBS firm the main focus in the excellence development is in superior knowledge to its competitors.

Valuation of Knowledge

For a company basing its competitive situation on knowledge, such as professional business service company, it is important to understand some knowledge valuation characteristics and principles inside the organisation.

Kasanko and Tillikka identify two levels of valuation to the knowledge intensive organisations: the national level and the organisational level. In the national level they mean measuring the national competitiveness a country by identifying certain key figures, e.g. investments to research and development, number of registered patents, number of innovations.

For the purpose of this research the organisational level of valuation offers more interesting application. Sveiby[23] and Lehtimäki[24] use the approach of creating a balance sheet to compare the knowledge intensive organisation to traditional industrial organisation. This is an interesting framework for understanding the organisational dimensions is professional service business.

Table 4: Industrial Organisation versus Knowledge Intensive Organisation

Industrial organisation	Knowledge Intensive Organisation
Machinery	Professional Experts
Current assets	Knowledge, Know-how
Fixed assets	Organisational structures, contact networks, accrued knowledge of the organisation
Investment	Research & Development
Greenfield investment	Recruitment
Improvement investment	Training of personnel
Sales of properties	Personnel cuts, layoffs, withdrawals

Source: Sveiby & Lehtimäki, 1996

It is to be noted that in knowledge intensive businesses most of company's assets is embodied in the personnel and company can not own individual persons. Thus, the knowledge capital stays in an organisation only as long as both parties, the employee and employer, find a common agreement on the compensation for the knowledge utilisation. It may be extremely difficult for an organisation to replace a top expert who has left the organisation. Thus, there may occur very sudden changes in the "knowledge balance sheets" between corporations.

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22 Nonaka, 1994

23 Sveiby, 1996

24 Lehtimäki, 1996

Knowledge Needed in the New Media Industry

Helomaa and Väänänen[25] have classified the knowledge needed in the new media companies into five major groups. Each of these have also several sub-groups, skills. The groups are presented in Table 5 below. These give an holistic insight to the knowledge areas that new media companies have to develop. They are also able to extract their expertise from these.

Table 5: New Media Knowledge Areas

Main Groups (Knowledge Areas)	Sub-Groups (Skills)
Business knowledge	• Organisation of operations • Team work • Sales and marketing
Management knowledge	• Project management • Internationalisation • Strategic planning • Social skills
Communications knowledge	• Multimedia creation, editing and usability • Narrative skills
Technical Knowledge	• Programming • Systems Integration • Database planning and administration
Digital media understanding	• Combination of the all above presented skills in all the groups to the new technological environment • Cognitive psychology • Concept creation (Business, Service Product) • Technological possibilities awareness

Source: adapted from Helomaa & Väänänen, 1999 pp. 40-54

On the purpose of this research, the most interesting points from the knowledge areas is linked to the internationalisation skills. The authors state[26] that knowledge gaps in internationalising new media companies are more rare to exist in companies in which the owners or personnel have previous international experience. Furthermore, they claim that internationalisation is more common in companies that have international clients or belong to international chains.

[25] Helomaa & Väänänen, 1999 pp. 40-54

[26] Helomaa & Väänänen, 1999, p. 77

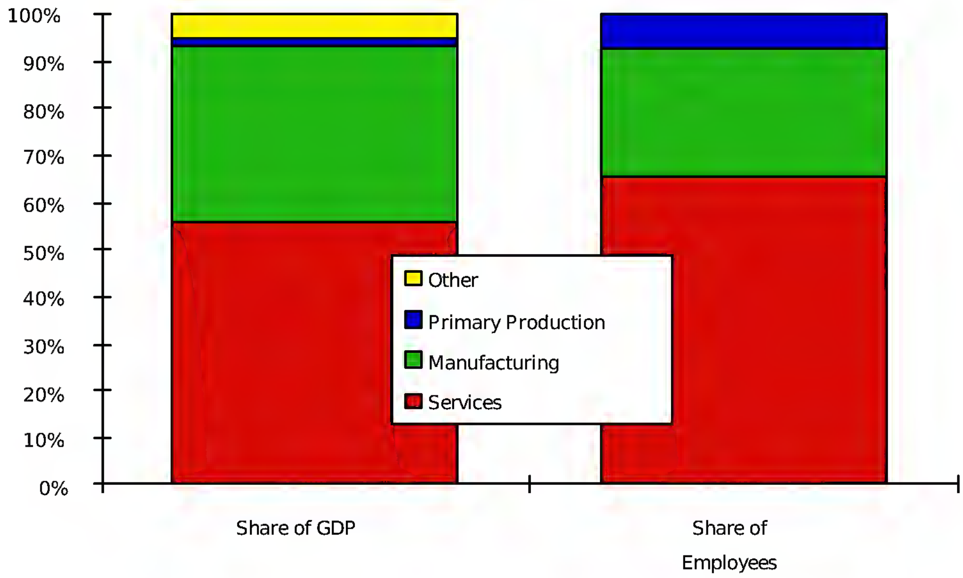
2.3 Professional Services in Finland

The most recent studies of the Finnish service sector emphasise the importance the knowledge creation in the industries. The requirements for information technology and continuous learning have created a turbulent environment. As one the most focused researches Kasanko and Tillikka[27] have published their analysis. This study offers a ground basis for positioning interactive media services also for the context of this study and understanding the importance of services for the national competitiveness. The main findings of the study are presented in this chapter.

Significant Importance for the Economy

Services have increased in their importance to the western economies throughout the 20th century. Finland was one of countries that experienced the service boom relatively late. Services represented over 50 % of the Finnish GNP as late as in 1971 and the 60 % milestone was passed in 1991[28]. In 1996 services had a portion of 62 % of the GNP and the portion has increased during the second half of the 1990s. Service sector's employment impact is even higher. Over 65 percent of Finnish employees, a total of nearly 1,3 million employees, worked in 1996 in the service sector and also this proportion is expected to rise in the next few years. The presented figures represent the whole of service sector, i.e. the definition is very wide and is not totally applicable to knowledge intensive services or to professional business services that are the subject of this research.

Figure 6: Finnish GNP and Employment in 1996 by Production Source



Source: Kasanko & Tillikka, p. 18-20

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[27] Kasanko & Tillikka, 1999

[28] Kasanko & Tillikka, 1999, p. 18

Knowledge Intensive Services Represent One Half of the Service Sector

In their research of knowledge intensive services, Kasanko and Tillikka divided services in to three groups: knowledge intensive core services, knowledge intensive supplementary services and skill intensive services (see chapter 2.1.2). The two previous will be presented in more detail in the following.

The six core services consisted of 155 000 employees, 12 % service personnel. the five supplementary services employed 500 000 people and it consisted of 40 % of the total service sector. The spread between different service sectors as presented in Table 6. Kasanko and Tillikka note that during 1993-96, the knowledge intensive service sectors (core and supplementary) have recruited a total of 20 000 new employees. This represented 36 % of all the new jobs in the service sector[29]

Table 6: Employment in Knowledge Intensive Services in 1996

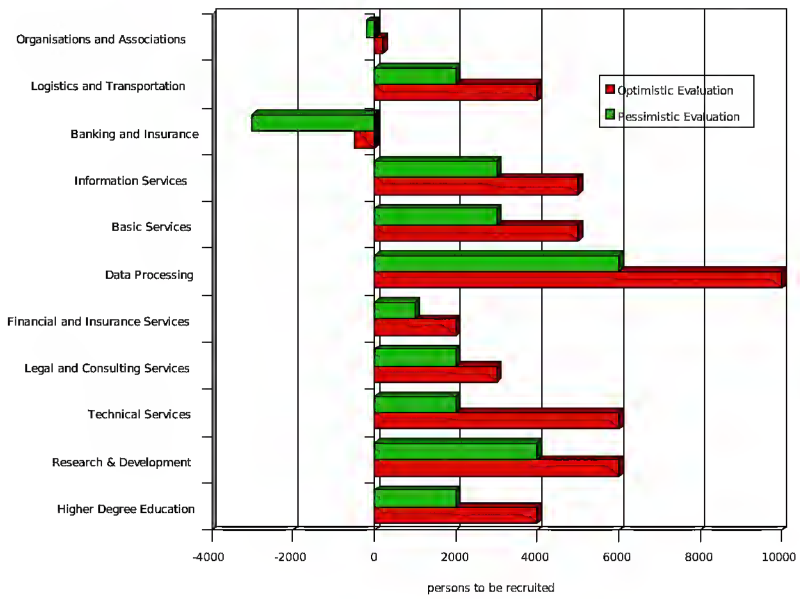
Service Sector	Employment effect
Knowledge intensive core services	155 000 employees, 12% of the service sector
Higher degree education	41 % of the core services
Financial and insurance services	3 %
Legal and Consulting services	14 %
Data Processing	10 %
Technical services	25 %
Research and development	8 %
Knowledge intensive supplementary services	500 000 employees, 40 % of the service sector
Logistics and traffic	16 % of supplementary services
Banks and insurance services	8 %
Information services	9 %
Organisations and associations	1 %
Basic services	66 %
Knowledge Intensive Service Sector in Total	**655 000 employees, 52 % of the Finnish service sector**

Source: adapted from Kasanko & Tillikka, 1999, pp.73 and 99

Kasanko and Tillikka have created also estimates about the employment development of in the knowledge intensive services. They estimate 3500 -6500 new jobs every year to be formed in the core services up to year 2004. In the supplementary services the annual employment increase will be around 1000-3000. The spreads between different sectors are presented in Figure 7.

[29] Kasanko & Tillikka, 1999, p. 72 and 99

Figure 7: Recruitment in the Finnish Knowledge Intensive Services in 1999-2004



Source: Kasanko& Tillikka, 1999, p. 126

Recommendations for the Development of the Service Sector

Kasanko and Tillikka conclude their analysis with four recommendations to the development of the Finnish knowledge intensive service sector. These have use also in the new media business development. The proposals are listed in the following and they also conclude this main chapter.[30]

- Training and education should aimed to meet better the needs of services. Knowledge intensive have all the a shortage for skilled personnel. They also require constant learning from employees. Lifetime learning is one of the key concepts in them. Thus, reactions are needed from educational organisations. The similar issues were found to appear also in the new media business.
- *Export activities of services should be supported and reinforced*. The Finnish know-how is in many areas very high in global scale. Yet, we are not exporting our know-how as service to the same extent. There is a great potential in this. This should be taken into use by better planned support activities. This is more than true in the new media business, potential exists, but export is still at early stages.
- *Research and development activities and support programs should be aimed to serve better the service sector*. Technological innovations and product development has been supported, according to Kasanko and Tillikka, very well during the last few years. Yet, there has been only minor investments on service business development. These innovations relate often to service processes and marketing. These functions should also be supported.
- *Networking inside and between industries should be supported and intensified*. The companies in the industry are small and their resources are very limited. This makes it problematic to e.g. start exporting. Though several companies have working sub-contracting networks, they need more co-ordination and co-operation at least in R&D and international activities. This will be analysed also in this research starting from the following chapter.

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[30] Kasanko & Tillikkaa, 1999, pp. 127-129

3. Business Networks

One of the most powerful and interesting approaches to explaining industrial behaviour are the models based on IMP-group's (International Marketing and Purchasing) business network research. The research project had it basis is dyadic buyer-seller relationship studies in 1980s. In 1990s this approach was expanded to a more holistic analysis. Several different frameworks and approaches for networks have been presented.

One of the most referred and general is the model from Håkanson and Johansson[31]. This chapter presents the basics of the network model and it will further discussed in chapter four in forming the internationalisation model for new media business. The issues to presented her include the general description of the model, the analysis tool for it, strategic positioning of companies in networks and last, few elements for network operation success.

Service business is very much operating in various positions in a networked environment and adjustments to customers changing requirements. It can be stated that by understanding network structures it becomes also easier to analyse the structures of service business.

3.1 Definition of a Network and Its Benefits

To analyse the networked business, it is first important to define what is meant by an network. The model to be presented later will explain it in very detail, but there are also some very basic definitions to start with. For example Christenssen[32] defines networks to possess the following characteristics:

- At least two companies are included and they have parallel business relations
- Each of the companies in the network is dependant on other companies' resources
- Companies are independent units
- Networked companies invest their resources for network operations
- Co-operation in the networks is based on mutual negotiations

Wilson and Jantranina[33] define the partnership that form network operations as "*a strategic alliance or a partnership can be defined as a relationship where a synergistic combination of individual and mutual goals encourage the partners to invest time, effort and resources to create a long-term collaborative effort that achieves individual and partnership strategic advantage*". This definition shows the mutual effort and the importance of the long-term relationship.

Also the reasons for network operations have to clarified. There can be multiple of these. As one example Christenssen[34] classifies the benefits of networks as:

- The position of the SME in the production chain/network will clarify due to higher level of specialisation
- Specialisation enables SME to benefit from economies of scale
- Combination of resources and knowledge between SMEs may create new production methods, innovations or export potential
- Knowledge that can be accessed increases substantially
- Long term co-operation and network activities increase the stability of the SME
  It may be positioned better in relation to parties outside the network. Belonging to network works as a beneficial reference for the SME

[31] Håkansson & Johansson, 1992

[32] Cristenssen, 1990, s.28

[33] Wilson & Jantranina, 1995

[34] Cristenssen, 1990 & Cristenssen-Lindmark, 1991, p. 40

LTT.[35] has classified several objectives for network co-operation. These are:

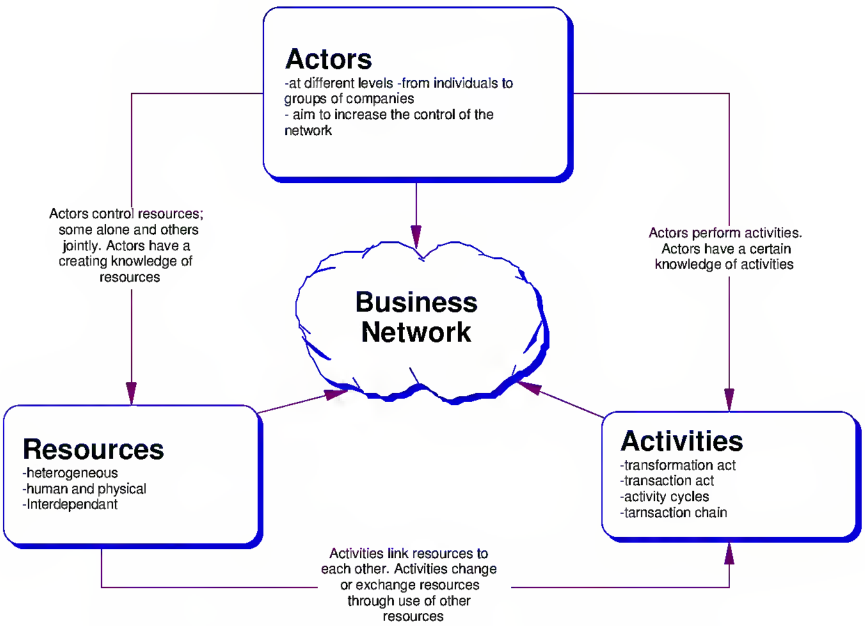
- Increasing the value of the product/service (product becomes more attractive for its user)
- Accessing new markets (increased distribution channels)
- Enforcing production possibilities (increased capacity)
- Increasing technological know-how
- Creation of supplementary growth
- Improving the efficiency and strength of the organisation/knowledge
- Improving economic situation, creating economic power (cost & risk cuts)

Jonninen & Granfelt[36]. state that success for a SME in the tightening international competition is very difficult, or even impossible, without co-operation with other companies. They argue that with networking and co-operation the companies can better their competitive situations and improve their weaknesses, i.e. access to technical expertise, financing or creation of integrated production lines & systems.

3.2 Generic Network Model

The first building block for the purpose of this research's network approach is the generic network model and its elements. In the model to be presented Håkanson and Johansson use three basic variables: actors, resources and activities. These variables are related to each other via business networks. Each variable's characteristics are discussed below[37] and the model is illustrated in Figure 8.

Figure 8: The Business Network Model



Source: Modified from Håkansson, Håkan & Johansson, Jan. 1992. p.29.

a) Actors

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[35] LTT, 1992, p. 10-18

[36] Jonninen & Granfelt, 1995, p. 5

[37] HÂkanssson & Johansson, 1992

Actors control activities and/or resources. Individuals, groups of individuals, parts of firms, firms and groups of firms can be actors. Actors have five characteristics. *First*, they perform and control activities, decide on the timing of a specific activity and about resource utilisation. *Second*, actors develop relationships through exchange processes. Each actor is tied to its business network with a strong or weak ties. *Third*, the actors base their activities on control over resources. This control can be direct (ownership) or indirect (based on relationships).

Fourth, the actors are goal-oriented. Their generic goal is to increase the control over the network. With this control the actors are able to reach their more specific goals. Network control is reached through control over resources or activities. *Fifth*, the actors have different level knowledge of activities, resources or other actors in the network. Network control is not evenly distributed among different actors. The more knowledge and the more experience an actor has, the higher is its controlling possibilities. Increased control for one actor always means loss for another actor. Thus, various coalitions to gain more power are formed.[38]

b) **Activities**

An activity exists when one or several actors combine, develop, exchange or create resources by utilising other resources. There are two kind of activities, transformation activities and transfer activities. In the first one, resources are changed in some way, while in the latter the direct control over a resource is exchanged from one actor to another. Transformation activities are always directly controlled by one single actor, while transfer activities link different actors to each other creating relationships. Furthermore, transfer activities are never controlled by one single actor and are thus affected by the relationship between the actors.

Single activities are linked to other activities in various way. They appear more or less as a sequence of activities containing both class activities. These can be repeated and thus they form activity cycles. Activity cycles are tightly tied to each other and form transaction chains.

Activities in the network are tied to each other via relationships. *A direct relationship* couples two activities directly to each other. *Indirect relationship* occurs when activities are tied together via intermediate activity. In *a specific relationship*, two activities follow each other only with certain actors. In *a general relationship*, the activity is independent of actors.

The networks is always alive, there is always room for new activities. Optimal position does not exist for one actor, each activity changes the consistency of the network. Thus companies need constantly to seek for new opportunities in the network.[39]

c) Resources

Various resources are needed to carry out activities. All resources are controlled by actors. According to Holmlund & Kock[40] corporate resources can be tangible or intangible and they can be divided into five main classes:

- *Personnel resources*, i.e. company personnel
- *Software resources*, e.g. knowledge about certain technology, production process as well as about the competitors and suppliers
- *Hardware resources*, e.g. machinery, buildings, equipment.
- *Organisational resources*, e.g. organisational structure, goals and culture.
- *Financial resources*, i.e. the possibility to get financial support.

Barney[41] classifies the corporate resources into three classes: physical, human and organisational resources. The *physical resources* include technology, buildings and machinery, geographical loca-

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[38] HÂkanssson & Johansson, 1992

[39] HÂkanssson & Johansson, 1992

[40] Holmlund & Kock, 1995

tion and the availability of raw materials. The *human resources* include the skills, knowledge and relationships of company's personnel, training carried out in the organisation as well as the experience, knowledge, skills and relationships of the organisation itself. Into *organisational resources* Barney includes the official reporting, official and unofficial planning, control and co-ordination systems as well as unofficial relationship networks to internal and external parties. These classes are very similar to the above presented one. By using the two listings, it is possible to identify and classify all the major resources in organisations.

Håkansson and Johansson[42] point out that resources are heterogeneous. The possibilities to use a specific resource are never limited to one single activity. There can be always be new combination of resources in a new activity. They point out also that the knowledge and experience of resources is of great value to an actor. The more of the two an actor has, the more combinations it can create of them in its activities.

d) The network

The three elements presented above form structures that can be described as a business network. Actors develop and maintain relationships with each other in the network. Activities also form structures of relationships. Similarly, resources are interrelated via the network. Each of the variables form their own sub-network, which creates the total network. Håkansson and Johansson[43] point out that total network is controlled by four important forces, which are;

- *Functional interdependence*, i.e. how different resource needs are related to actual resource acquisitions
- *Power structure*, i.e. who has the control over certain resources
- *Knowledge structure*, who knows about the location of resources
- *Inter-temporal dependence*, how have the resources become available and how soon can they be accessed

3.3 Activity Links, Resource Ties and Actor Bonds

To analyse a network, it is essential to have a framework for the analysis basis. There are several of them. In this study, the most suitable one was considered to be the model developed by Håkanson and Snehota[44]. due to its dynamic nature. This model illustrates the layered and tightly tied structure of relationships. The model forms the second building block for the network approach of this study.

Håkanson and Snehota identify three layers of substance in relationships. These are

- **Activity links**: technical, administrative, commercial and other activities of a company that can be connected in different ways to those of another company
- **Resource ties**: resource elements (technological, material, knowledge resources and other intangibles) of two companies that are connected to each other
- **Actor bonds**: the way how two companies perceive each other and form their identities in relation to each other

In practice, the researchers point out, that these three relationships layers are very much interrelated and it is difficult to distinguish between them. Authors argue that business relationships develop in three levels: the company, relationship and network levels. Each company has its own activity and organisational structure and its resource constellation. The above presented relationship layer is in the middle. Furthermore, the aggregated relationships of companies create three

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[41] Barney, 1991

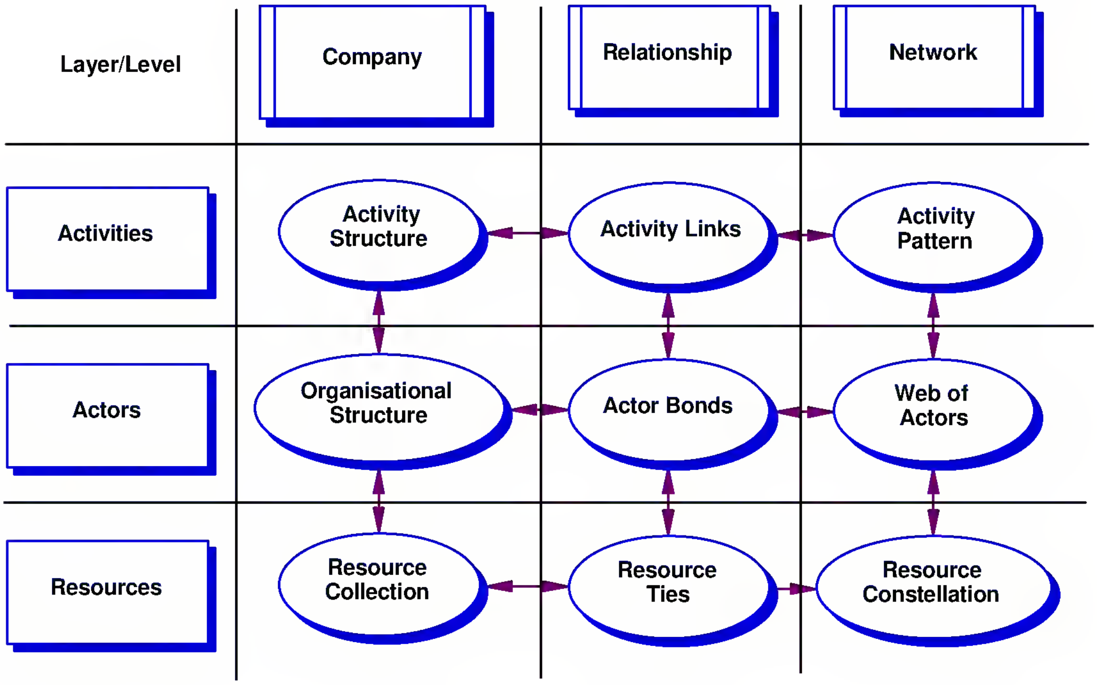
[42] HÂkanssson & Johansson, 1992

[43] HÂkanssson & Johansson, 1992

[44] HÂkanson & Snehota, 1994

equivalent network layers: activity pattern, web of actors and resource constellation. All these three layers and levels together form the analysis framework for network. This is illustrated in Figure 9.

Figure 9: Relationship Analysis Framework



Source: Håkanson & Snehota, 1994

Håkanson and Snehota conclude that there are three critical issues in coping with relationships. First, on the company level, each company can should focus on the **competence development** in its network analysis. Each actor, resource and activity is linked to other companies' similar factors. Thus, relationships have effect on the development of company's competence areas, capability to deliver production and thus its performance potential.

Second, the **marketing and purchasing operations** are the functions that have to most of use of the framework. These constitute the most critical relationships of any company - to customers and to suppliers. To understand the relationship better, the framework offers a tool for it.

Third, the company can utilise the framework in its **strategy formulation**. The main target should be gaining as favourable position as possible in the business network. The position affects the economic outcome of a company in a relationship over time. It is the basis for capacity to developing its capability and capacity better than its competitors'. Thus, the strategic management of a company should thus monitor the changes in the network structure and have a strategy to react to them. These changes can be negative or positive and open up possibilities to gain a better position in the network.

3.4 Micro and Macro-Positions Inside a Network

The third building block for the network approach is the concept of network position. Johansson and Mattson[45] argue that model for industrial network means in its simplicity that firm's activities in industrial markets are a cumulative process. In it relationships are "constantly established, developed and broken in order to give satisfactory short-term economic returns and to create positions in the network securing the long-term survival and development of the firm". In practice this means that the networks are in

[45] Johansson & Mattson, 1988

short-term stable, but changing in the long-term. Companies develop relationships through their activities in the network and thus secure or gain access to important resources to the production and sale of its products and services.

The authors emphasise the importance of the concept of network position due to the cumulative nature of market activities. They state that firms have all the time positions that characterise their relations to other firms. These result from earlier activities by the firm and other firms and constitute the base which defines the development possibilities and constraints in the network. Johansson and Mattson distinguish the difference between the micro- and macro-positions of firms in the networks. *Micro-position* is the relationship with a specific counterpart, whereas *macro-position* refers to the relations to the network as a whole or to a specific section of it. The authors specify the main characteristics of the positions and they are presented in the Table 7 below

Table 7: Micro- vs. Macro-Positions in Business Networks

Micro-Position	Macro-Position
• The role the firm has for the other firm • Its importance to the other firm • The strength of the relationship with the other firm	• The identity of the other firms with which the firm has direct relationships and indirect relations in the network • The role of the firm in the network • The importance of the firm in the network • The strength of the relationships with the other firms

Source: adapted from Johansson & Mattson, 1988

The macro-position is affected also by the interdependencies in the whole network as well as by the complementarity of the micro-positions in the network. Therefore, it is to be noted that macro-position is not the aggregate of firm's micro-positions.

Johansson and Mattson continue[46] that positions describe firm's relations to its industrial environment and the illustrate some of its strategic possibilities and restrictions. The firm aims strategically to leverage its position in its future operations. Yet, also other firms possess the similar possibilities. Each actor has own desired changes to their positions or willingness to defend the present situation.

As their conclusion, Johansson and Mattson state that in networks which are *tightly structured*, i.e. the liaisons and bonds between the actors are strong, the barriers of entry are higher than in networks that are *loosely structured*. If the established relationships work and the actors are satisfied for the results of their co-operation, it is difficult for a newcomer to make an entry to the network, whether it were domestic or foreign. Issue of the entry will be discussed in more detail in chapter 4.3.2, p. 39.

3.5 Problem Areas and Success Factors of a Business Relationship

LTT[47] has classified the main areas of problems that affect the success of the relationship. These are presented in the listing below. The points presented first are encountered at the start phase of the relationship, while the ones in the end of the list are in more common in a long-term relationship. The internal problem areas in relationships are:

- Fear for unplanned spread of critical knowledge
- Differences in corporate systems and cultures
- Size difference of the parties

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[46] Johansson & Mattson, 1988

[47] LTT, 1992, p. 34-38

- Non-balanced power or benefit structures
- Unclarified of the scope of the co-operation
- Resistance inside the participating organisations
- Changing objectives and loyalty problems

In addition, LTT states that there are several outside factors that can affect the success of operations in the networks. These include e.g. changes in legislation, fluctuances in economic conditions. These may lead the parties to take actions that are non-benefical for the co-operation.

To avoid these problems it is important find out that what can create the co-operation to succeed. Wilson and Jantranina[48] define that key constructive elements for a successful relationship are:

- *Goal compatibility* the co-operating partners share the same vision of the target of joint operation. Both parties are seeing their objectives met in the joint operation and thus are satisfied.
- *Trust* of distrust is the second basic constructive element for business relationships. It is difficult to define in exact terms. Yet, in practice it means that the both parties are willing to count on other party's abilities, expertise and knowledge, as well as on the purity of its motives and intentions in the co-operation.
- *Satisfaction*: perception of the performance level of parties. Both have to be satisfied to each other's performance, or otherwise they seek for new partners.
- In the climate of trusted relationship, both parties invest in developing the relationship further. These *investments* create the fourth element in the relationship. They are an exit barriers from the relationship.
- The co-operative partners create personal relationships in their co-operation. These create the *social bonds* between the two parties. It can be argued that they affect strongly to the success of the relationship. Parties interact in the personal level and the better they know each other, the more difficult it becomes to withdraw from the co-operation.
- In their co-operation, both organisation become tied to each other by several *structural bonds*. These links between the organisation make it more expensive to search for a new partner than continue with the existing partner. The investments already taken into one relationship can not be transferred to another. Thus, the existing bonds are a exit barrier, as well.
- The more experience in different parties has in co-operative modes of operation, the better they can compare different alternatives. Wilson & Jantranina name this experience as the *comparison level of alternatives*. In practice this means a demand for a certain level of performance from the other party in relation to generally experienced level. They also point out that higher the comparison level of alternatives is, the easier it is for the higher level possessor to change its partner. Thus, a the lower level company should invest heavily on the relationship, if the partner is very attractive.

In addition, Eräheimo and Lahti[49] list some of the factors that co-operating parties would have to focus in aiming for successful co-operation. They argue that these are the basic and crucial elements to fruitful networked operations. They state the most important element of all is the common will to work together, all the problems can be solved if there is a strong common belief in the co-operation. Their features are very similar to the ones presented earlier. The elements are:

- *Mutual dependence*, especially between resources that create new business opportunities
- *The business potential of the participants*, a group of weak companies remains weak even if networked
- Personal relationships between the key personnel

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[48] Wilson & Jantranina, 1995

[49] Eräheimo & Lahti, 1991, p. 18-22 & 1993, 64-66

- *Compatibility of resources*, these include skills, technologies and corporate culture issues
- Compatibility of objectives for the co-operation, the both parties have to agree on the profit spread as well as on the timing and operation objectives
- *Unanimity of roles and responsibilities*, the role spread between the parties has to be clear but not too binding
- *Agreement of practical principles and methods*, the co-operation may seem beneficial in the contract, but it has to work also on the practical level
- Investment on the co-operation, all the parties have to spend time and effort for the common benefit
- *The targets of the co-operation*, the co-operation has to create, at least in the long run, business advantages for the parties
- *The exit possibilities from the co-operation*, there has to be an agreement that how and when a party can withdraw of the co-operation.

3.6 Business Networks in Finland

Jonninen and Granfelt[50] have estimated the scale and scope of co-operation and networked modes of operations in Finland. In their analysis of three different industries; textile, electronics and furniture SMEs; they found estimated that around 40-50 % of SMEs participate in co-operative activities in Finland. They noted that co-operation was more common between larger companies and that these also were more involved in co-operation crossing national borders.

The authors evaluated the attitudes and experiences of the entrepreneurs about co-operative modes of business. They found out that *the experiences were basically very positive*. Nearly 90 % of the companies that had co-operated stated that they had no or very few problems with their partners. The companies argued that *the greatest problems arouse from that all the parties did not participate to the same extent to the activities*, did not invest the same time and effort than the other parties did.

Jonninen and Granfelt found out *factors that limited the most the co-operation were the attitudes of the entrepreneurs.* Finnish companies are afraid of losing their best innovations to the competitors. In addition, they see co-operation very time-consuming and are sceptical about the extra benefits co-operation may bring for them. Smaller companies were more negative than larger ones. On the other hand, the entrepreneurs who have participated actively in co-operative or networked activities see them beneficial. *The prejudices and sceptically weaken with increased experience*, argue the authors.

To sum up, the authors state that attitudes towards co-operative modes of activities in the Finnish SMEs are developing positively. They suggest that *entrepreneurs should find and be presented concretely the benefits that networks can bring to them*. Organisations and associations are seen as the key forum for this kind of presentations and attitude alterations.

The international dimension of the Finnish business networks as well as the service sector considerations will be discussed in the following chapters. The focus is to emphasise their importance in the development of the Finnish professional business service sector and new media industry.

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[50] Jonninen & Granfelt, 1995, p. 50-55

4. Internationalisation of Professional Business Services

In this chapter the emphasis in the analysis of the internationalisation theories in regard of service business. First, the motives of the companies to internationalise are analysed. Second, the methods - operation modes - are regarded. Third, a more holistic approach to the internationalisation process is taken with the most recent theories of network-based approach to internationalisation. Finally, the service business internationalisation considerations are looked at from the Finnish perspective. It is to be noted that the chapter aims to give the ingredients for the internationalisation model building in Chapter five. It will not go into detail in the theoretical discussions of the presented models and theories, but rather presents them and discusses the application of the models in regard of professional service business.

4.1 Reasons for Internationalisation

As a first internationalisation theory element, it is logical to turn to the reasons for international operations. These will be presented in both in broader scale and directly related to service business. Also some ideas about the corporate growth strategy and its relationship towards internationalisation are presented.

4.1.1 Generic Reasons to internationalise

Czinkota & al. [51] have identified the main reasons for a company seeking for international expansion. These can be divided into two classes, proactive and reactive reasons, according to the time of reaction to market changes. The both groups are presented in Table 8 below:

Table 8: Generic Reasons for Internationalisation of a Company

Proactive reasons	Reactive reasons
• Profit advantage	• Competitive pressures
• Unique products	• Overproduction
• Technological advantage	• Declining domestic sales
• Exclusive information	• Excess capacity
• Managerial commitment	• Saturated domestic markets
• Tax benefits	• Proximity to customers and ports
• Economies of scale	

Source: Czinkota & al. 1996, p, 403

These reasons are very generic and are applicable to nearly any holistic analysis. To the purpose of this research more specific definitions are needed. Luostarinen[52] classifies internationalisation factors for Finnish SMEs into three classes: to macro-, micro- and milli-micro factors. As it can be seen, the Finnish companies are both pushed and pulled to participate in the international markets. Possibilities for growth in home market are small. In addition, competition in Finnish markets are open to foreign competitors. The Finnish economy has been weak to resist global economic fluctuances. Foreign operations, i.e. internationalisation, is a possibility to balance this uncertainty.

One of the main reasons lies on the experiences of the personnel -the more internationalised the personnel is, the more capable and willing the company is to penetrate into international markets.

[51] Czinkota & al. 1996, p, 403

[52] Luostarinen, 1979

Table 9: Reasons for Internationalisation of a Finnish Company

Macro-factors	Micro-factors	Milli-micro-factors
1. Push factors • Smallness and openness of domestic markets • Periferic location 1. Pull factors • Large size and openness of international markets	• Economies of scale • Benefits from specialisation • Covering R & D expenditure • Utilising global possibilities • Benefits from integration of foreign operations	• Endurance of risk and uncertainty • High level of personnel learning • High level of internation-alisation in personnel • Personnel's motivation for internationalisation

Source: adapted from Luostarinen, 1979

Kailaranta[53] states that many products reach their economic targets only with international distribution, they may originally be aimed to be sold in these markets. A Finnish SME can be competitive in international markets only by finding its special market, i.e. its niche market. Kailaranta found in her study that *most of Finnish SMEs were highly specialised to certain niches*, but had not reached the internationalisation levels they would have needed for highly successful business. Also she found out that most of Finnish SMEs based their competitive strategies on technical superiority of products. She argues, that competitive advantage based purely on technology may be only temporary and thus, too risky. Kailaranta adds that *commitment of firm's management if crucial to the success of international operations*. Courage, openness to new ideas, ability to meet challenges and handle risk are characteristics needed from the management of a SME.

4.1.2 Service Firms' Internationalisation Reasons

Internationalisation Level of Service Sector

Kostecky[54] states that internationalisation of services depends simultaneously on several factors. He summarised these in his holistic model for service globalisation:

$$Glob = f\{\Delta T, \Delta R, \Delta E, \Delta C\}$$

In the equitation T refers to *service tradability*, R refers to the *degree of service regulation* in the target market, E refers to *economies of scale and scope* obtained through globalisation, and C stands for the *clients pressure for global service concept*. The higher the total Glob-figure is, the more international/global the service industry is or will become. Kostecky points out that new technologies have increased tradability of all the services, through advanced means of communication nearly all the services are tradable across borders. He also points out that in the last few years deregulation of several sector, e.g. telecommunications, has opened up the service markets.

The reasons for a PBS firm to internationalise can be divided into *demand and supply-driven* factors. First, on the *demand side*, many multinational customers of PBS companies demand also their service providers to offer the same services in different locations. This drives the PBS firm to international markets. Second, on the *supply side*, some PBS firms gain scale advantages in operation globally. E.g. managing consultants can benefit from a global network of experienced and skilled personnel.

[53] Kailaranta, 1998, p. 12

[54] Kostecky, 1994

Reputation as the Internationalisation Motive

Aharoni[55] states that the main driving reason for internationalisation of a service firm is the *competition for improved reputation and name*. A well-known international brand is nearly the only perception of quality that international customers take decisions on their service deliveries. Others include price, availability, etc., but the brand is the guarantee for the customer of a service companies' skills. Reputation is "*a means of signalling quality for the potential customer*".

It could be argued that the more known the brand of the firm, the better employees it can attract and again obtain better and more willing customers. Also it could be stated that the size of the service firm may become a competitive advantage - the bigger the firm, the higher the reputation and the better the benefits for individual talents. Yet, this is a dangerous generalisation in professional service business. If key persons leave the company, the reputation may also detoriate. Also a small flexible company can offer better service to certain segments than multinational service "giant".

4.1.3 Growth as a Driver for Internationalisation

Demand for growth has been generally regarded as one of the most common motives for internationalisation. Luostarinen[56] has created a cyclical model for the growth targeting in international operations. This has certain implications also on the service sector internationalisation. The main rationale in the model is that the internationalising firm, whether manufacturer or service firm, aims to operate periodically in different roles. The roles are interrelated and lead from one to one step to another. Company's main motive for international operations is thus to reach another role, leadership in certain areas. The model is very generic and it has to be modified to each industry to be analysed. The model is presented in Figure 10

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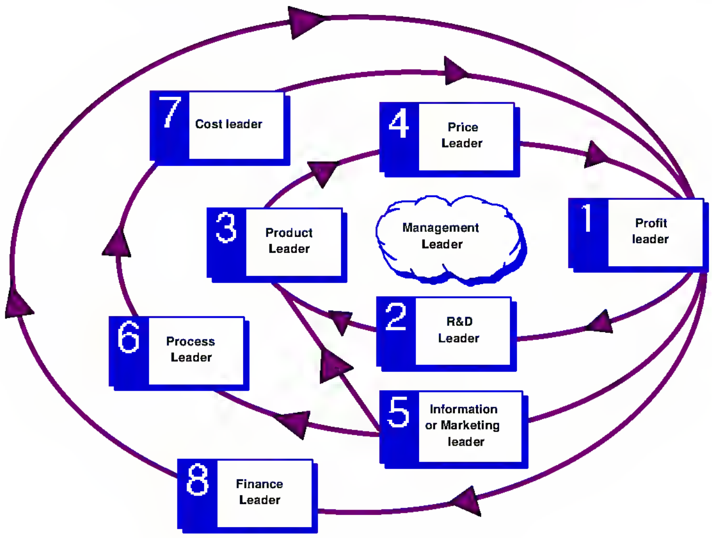
Figure 10: Onion-like Profit Circle - Aiming for International Leadership



Source: Luostarinen, 1994

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[55] Aharoni, 1995, p. 22-26

[56] Luostarinen, 1994

The model has many similarities in the growth model for successful SMEs. Eräheimo & al.[57] combine in their cyclical development model the resources, leadership strategies and process development. They argue that a successful growth company has to has a combination excellence either in its products and services, client relationship management or production processes that is very difficult to imitate. This is very similar to suggestions presented in chapter 2.2 (p. 13) about the competitive advantage of PBS firms. Furthermore, the authors point out that high growth, whether domestic or international, is always based on multiple excellencies and on the ability to reinvest the obtained resources to the company.

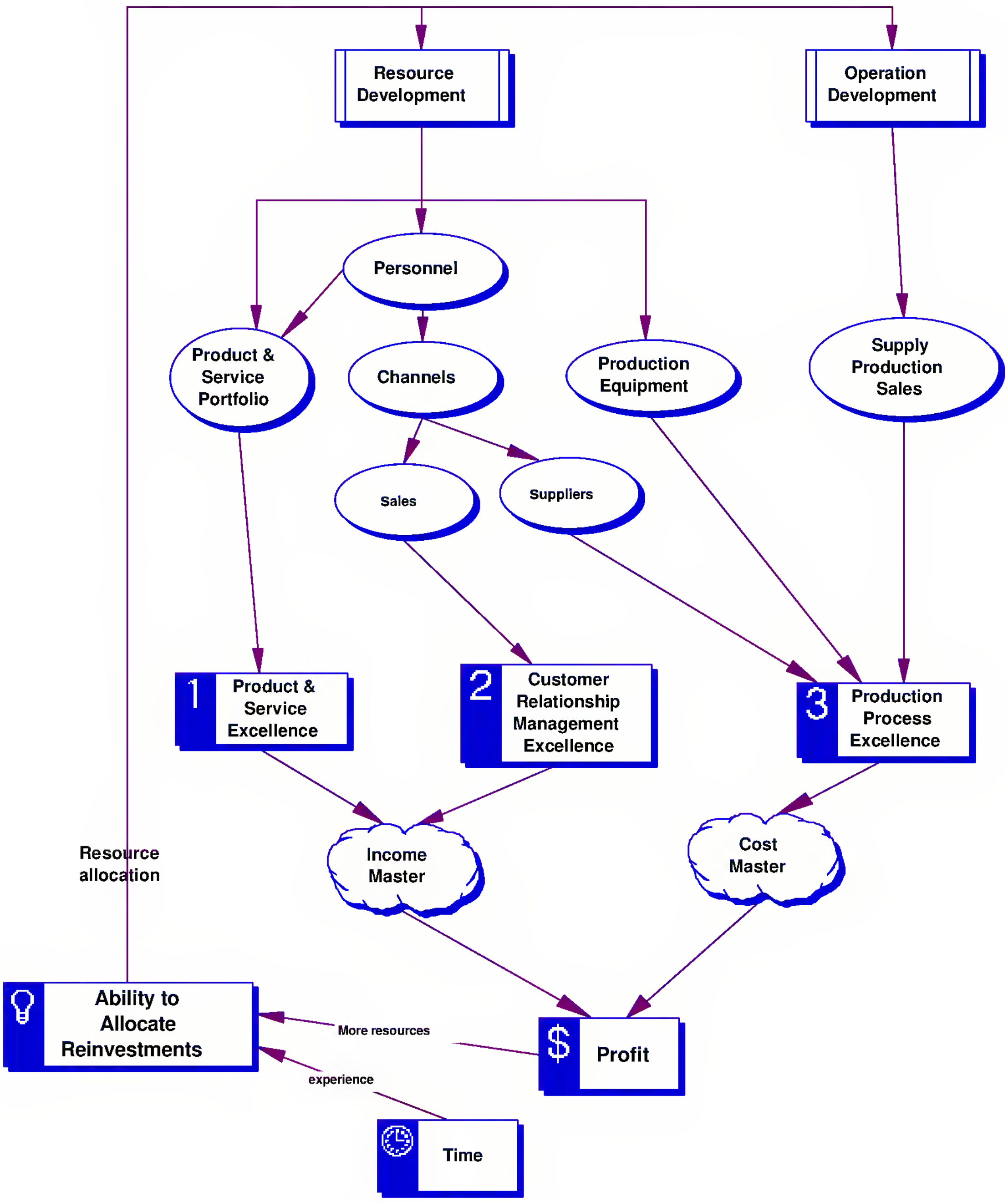
Eräheimo & al. identify several common characteristics for successful growth companies. These features are:

- They have been *continuously profitable* in their operations with only few unprofitable periods.
- They have *invested their profits nearly totally to corporate development* and running current operations.
- They have invested a lot of time and effort for *the development of their resources, processes and activities.*
- They have a *combination of excellencies* in production process, customer relationship management or in their product or service features that is difficult to imitate.
- They *ambition standards are at a very high level* and they can *define clearly the values* on which operations are based on.
- There are no "*business gamblers or short-term profit seekers* behind the corporate development. The entrepreneurs possess high motivation, seek for development and are very creative
- They are *very modest and precise* in their investments. Yet, *from time to time, they take substantial risks* to reach breakthroughs in certain operations.

The authors present a model for successful corporate development. This is very interesting also for professional business service company. The excellencies in these are knowledge related (see chapter 2.2, p. 13). The new media company has to also find its excellence areas and be able to continuously develop itself in order to stay competitive. International market offer great opportunities for this development in the industry. The model is presented in Figure 11.

[57] Eräheimo & al., 1996, p. 53-59

Figure 11: Dynamic Growth and Excellence Circles in a High-Growth Company



Source: Eräheimo & al, 1996, p. 53

4.2 International Operation modes

The second element to be discussed in internationalisation is the different operation modes. These are first presented in more general level and then with a special focus to the service sector.

4.2.1 Traditional Classification of Operation Modes

Organisation of multinational activities is demanding for any enterprise. It can be stated that the organisational structure decides on[58]: a) success b) management means and c) legal and other environment constraints of an international operation. There are several modes that a company can choose from. Luostarinen[59] classify international operations between two dimension: functionality and investment intensity. He comes up with four main classes of operation modes, which are

- Non-Investment Marketing Operations (NIMOs)
- Non-Investments Production Operations (NIPOs)
- Direct Investment Marketing Operations (DIMOs)
- Direct Investment Production Operations (DIPOs)

Furthermore, he has identified the operational modes in more detail. These are presented in Table 10. Luostarinen's findings were based on mostly to Finnish manufacturing companies. Thus, the analogue between service business has to be carefully considered.

Table 10: International Operation Modes

Non-Investment Marketing Operations (NIMOs)	Non-Investments Production Operations (NIPOs)	Direct Investment Marketing Operations (DIMOs)	Direct Investment Production Operations (DIPOs)
• Indirect Export • Direct Export • Service Export • Know-How Export • Partial Project Export • Marketing management contracts • Distribution or service franchising	• Licensing operations • Production franchising operations • Production franchising • Contract manufacturing • Project operations • Co-production	• Marketing units • Warehousing units • Service units • Sales units	• Assembly units • Manufacturing units

Source: adapted from Luostarinen, 1979, p.107-112 and Luostarinen & Welch. 1990, p.234

Luostarinen has also classified his operational modes according to their major characteristics and to the risks that they carry. These findings are presented in Table 11. As it can be seen, according to Luostarinen, service business it not expected to carry high commitment or high risks, while contractual arrangements increase the level of risk and commitment. In addition, any operation mode including founding a own or joint subsidiary in a foreign country increase the commitment and risk potential the internationalising company has.

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[58] Aharoni, 1993, p. 122

[59] Luostarinen, 1979, p107-112

Table 11: International Operations and Their Characteristics

Scale: VS= Very Small, S= Small, L= Large, VL = Very Large, Vlo = Very Low, Lo = Low, H=High VH = Very High

	Non-Investment Marketing Operations (NIMOs)				Non-Investments Production Operations (NIPOs)				Direct Investment Marketing Operations (DIMOs)				Direct Investment Production Operations (DIPOs)	
	Indirect Export	Direct Export	Service Export	Know-How Export	Licencing	Contract Manufacturing	Turn-key Project	Co-Production	Sales Promotion Unit	Warehouse Unit	Service Unit	Sales Unit	Assembling Unit	Manufacturing Unit
Financial Commitment	VS	S	S	S	VS	S	L	L	L	L	L	L	VL	VL
Management Commitment	VS	S	S	S/L	S	S	L	L	S/L	S	S/L	L	VL	VL
Market Control	VS	S	S/L	S/L	S	S/L	S	S/L	L	S/L	S/L	VL	VL	VL
Financial Risks	VLo	Lo	Lo	Lo	Lo	Lo	Lo	VH	H	H	H	H	VH	VH
Political Risks	VLo	Lo	Lo	Lo	VLo	Lo	Lo/H	Lo/H	H	H	H	H	VH	VH

Source: modified from Luostarinen & Welch, 1990, p.246

4.2.2 International Operations in Service Business

Pietikäinen & Tynnilä point out that there are five methods to offer services internationally. They offer a broad understanding for the international trade of services. These are[60]

- *Country-to-country transactions* including, but not exclusively voice, image (video), data or other information transmission and the transport of goods from one country to another
- *Licensing contracts* for the use of intellectual property, technology or other services (patents, trademarks, concessions, books, films, broadcasting and recording rights)
- *Travel of individual consumers to another country* (services to non-resident tourists, to students or in medicine to patients)
- *Travel of individual producers to another country* (services provided to foreign clients by business consultants, engineers, lawyers etc.)
- *Sales of services* (accounting, advertising, insurance) by the intermediary of branches or subsidiaries

International new media services include the two latter classes and additionally can include some trade of licenses. According to Aharoni [61] professional business service firms can offer their services in the international markets in four different ways. These classes are more applicable to the research topic.

1. By *pure cross-border trade* using telephone, computer network etc.
2. By *clients coming* to the provision company's country
3. By *service provider moving* temporarily or permanently to the place customer is located
4. By offering services through *foreign direct investments*

The most common way is the third, service firm moving to close to the customer. This mode of internationalisation is divided into two sections, permanent and temporary presence. In perma-

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[60] Pietikäinen & Tynnilä, p. 20

[61] Aharoni, 1993, p. 6

nent operation the PBS firm establishes an unit to serve the customer in the other market, while in the temporary unit, representative(s) of the firm is (are) placed to close the customer premises.

Aharoni states that the "*expansion of so-called service MNEs is, often an expansion of a network of several autonomous partnerships*"[62]. With network he refers to the special characteristics that professional service companies possess, e.g. dependence on the skills of individual employees and their individual relations to other market actors or individuals (see chapter 3, p. 21). The success of international operation, can be thus seen as the success of network expansion.

Ownership Structures are More Likely to Appear in Certain Circumstances

Ownership structures are more likely to appear when all the following conditions are fulfilled[63].

- The system can be standardised
- There are significant economies of scale
- The home country firm is an exclusive owner of certain technologies, know-how or contacts with governments crucial for multinational operations
- No host country firm exists in the area of specific knowledge required
- The home country firm deems central control to be exclusive, e.g. local firms may not have sufficient expertise
- A minimum efficiency scale can be reached by each subsidiary
- There is a frequent need to transfer temporarily professionally skilled individuals from one country to another.

Aharoni states that when these requirements are not met, a co-operative modes of operation may be preferred. These include coalitions and networked modes of operation. These loosely coupled trans-organisational systems, networks, have been of recent interest to many companies due to their flexible nature - they can be changed quickly. Aharoni[64] points out that most of the economic activity is actually carried out in networks. He adds *that for most of the PBS firms their firm-specific knowledge and advantage can be achieved only by being a part of a network*, not by ownership and hierarchy[65].

Network Operation Creates Mutual Benefits to its Participants

Aharoni[66] argues that networks have been analysed to lesser degree than ownership or coalitions. In his opinion, they offer a more flexibility and their structure can be altered more easily. They could offer an easier form of operation between firms of equal sizes or experiences. Furthermore, Aharoni comes up with two major problems faced in the network arrangement. These are

- Making sure that the each local autonomous firm gives, in exchange for access to clients, *the right priority to serving the client* and ensuring the maintaining the *minimum standards of quality*
- Achieving the *optimal distribution of benefits* and cost. Benefits include clients, knowledge transfer, reputation and, of course, increased profits.

Only few local firms are able to gain the potential benefits a network operation may offer. Yet, if there is no common agreement on the presented two point, the network may not become fruitful.

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[62] Aharoni, 1993, p. 135

[63] Aharoni, 1993, p. 136

[64] Aharoni, 1993, p. 137

[65] Aharoni, 1993, p. 16

[66] Aharoni, 1993, p. 137

To understand the requirements for local organisations, a following more pragmatic list could be presented[67]. Local organisations should agree to:

- To work on cases referred by other organisations in the network
- To refer work in other countries to sister organisations in the network
- To maintain a minimum standard of professional work
- To be subject to periodical reviews to maintain quality
- To send partners or other professional workers to be trained in certain methods by other parts of the organisation
- To agree on sharing the costs of international marketing and training efforts
- To agree on the corporate image and reputational positioning of the networked companies

As it can be seen, the issues to be agreed on are numerous and thus create network operations very complex and difficult to co-ordinate. Yet, their power lies in the flexibility and reaction speed. In the environment of high mutual trust, it can be of utmost beneficiality to all its participants.

4.3 Internationalisation Process of Firms

Third and the most holistic element in the internationalisation theory is the actual process of internationalisation. This is first discussed according to the more traditional school - the stages approach. Then another paradigm to the process is presented. Finally, the process is linked to the service business.

4.3.1 The Stages Model of Internationalisation

Internationalisation could be defined as company's involvement in international business, which includes all business transactions that involve two or more countries[68]. It an alternative way of growth form companies and it is a more important growth strategy in the small domestic markets than in the companies with large home markets[69].

According to the Nordic Stages Theory of Internationalisation developed by Luostarinen (1970, 1979) in Finland and Johansson and Vahlne (1974, 1976) in Sweden, the internationalisation process of a firm can be divided into four different stages. These are: Starting stage, Development stage, Growth Stage and Mature Stage. The company moves from one stage to another if there is a change in the product, operation or market strategy of the company[70]. In a mature stage of internationalisation the company may sell know-how and systems in addition to services. Various operation modes are used in the process. A firm commits itself more and more to international operations and international business while moving from one stage to another. Its main strategic objective is to take the commitment decisions that carry minimum risk, but maximum benefit. Figure 12 illustrates the traditional approach to internationalisation.

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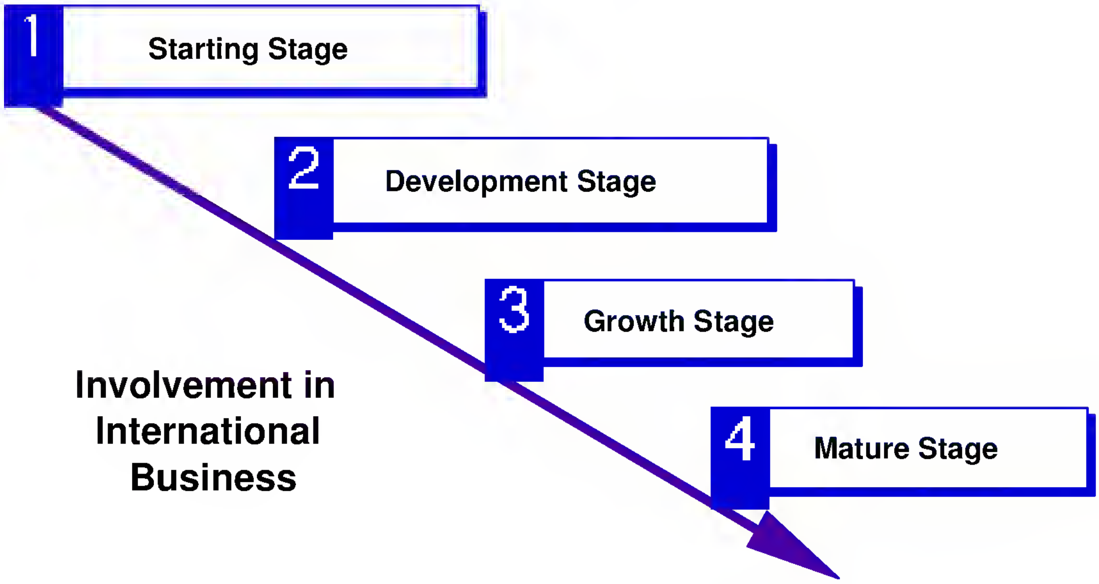
[67] Aharoni, 1993, p. 138

[68] Daniels & Radebaugh, 1986

[69] Luostarinen, 1979, p. 27

[70] Luostarinen, 1979, p. 181-183

Figure 12: Stages Model of Internationalisation



Source: Luostarinen, Reijo. 1979,. p. 186.

4.3.2 Network-Based Internationalisation Process

The stages approach to internationalisation has been generally accepted by the research community to be one of the most explanatory models. Yet, it has its shortages. Johansson and Mattson[71] have developed the internationalisation process to include the network dynamics discussed in chapter 3 (p.21). Their model has during the last few years gained arising interest and has become generally accepted to have more explanatory power than the stages models.

Methods to Internationalise

In their model Johansson and Mattson argue that each company operates in a network of actors, resources and activities. Internationalisation of a firm is that "*the firm establishes and develops positions (see chapter 3.4) in relation to counterparts in foreign countries*". They continue that this can be achieved by three methods:

1. **by international extension**, i.e. through establishment of positions in relation to counterparts in national net that are new to the firm
2. **by penetration**, i.e. developing the positions and increasing resource commitment in those nets abroad that the firm has already positions in
3. **by international integration**, i.e. increasing co-ordination between positions in different national nets

The firms degree of internationalisation informs about the extent to which the firm occupies certain position in different national nets, and how important and integrated are those positions. Furthermore, Johansson and Mattson argue that the firm's positions before the internationalisation process indicate that market assets that may influence the of the process. With market assets they refer to the relationships that the company has created and nurtures before the internationalisation.[72]

The distinction between the production network and national network needs also to be discussed. The *production network* is the network that the actual production is carried out, i.e. relation-

[71] Johnasson & Mattson, 1988

[72] Johansson & Mattson, 1988

ships between suppliers, sub-contractors etc. *National network* is the network in which the company operates in its local markets, i.e. the industry level network. There can be substantial differences in the levels of internationalisation between the two networks. Production resources may be located in foreign countries, but the actual customer and industry lies in purely domestic markets. On the contrary, the highly internationalised national network, enables or obliges the company to consider its operation as a part of internationally spread operations.[73]

Situations in internationalisation

Johansson and Mattson identify four situations for a company in internationalisation process. They also link the traditional stage model to their situations. They argue that the stage model has its highest explanatory power in market and situation where nearly all the companies were trialists and taking their first steps internationalisation. In the present highly internationalised markets the situation is different - a different approach is needed.

The four situation that the authors define are: The Early Starter, The Lonely International, The Later Starter and The International Among Others. They names of the situations reflect the degree of the internationalisation of the firms and the market/network. The situations can be placed in a matrix as in Table 12.

Table 12: The Four Internationalisation Situations

		Degree of Internationalisation of the market / production network	
		Low	**High**
Degree of Internationalisation of the firm	**Low**	The Early Starter	The Later Starter
	High	The Lonely International	The International Among Others

Source: Johansson & Mattson. 1988, p.202

Company has special characteristics in each of the four situations. The markets and networks differ, the accumulated experience levels vary, resources are available in different ways and companies have several strategy options to choose from in each situation. The main characteristics of each stage are presented in Table 13 and discussed in the chapters following the table[74].

[73] Johansson & Mattson, 1988

[74] The descriptions are based on Johansson and Mattson, 1988

Table 13: Characteristics of the Four Internationalisation Situations

	Market/ Network Description	Actors' Experience in International Business	Resource Availability and Control	Strategy Options and Considerations
The Early Starter (Low degree of internationalisation of the firm and the markets)	• Few actors in international markets • Initiative to often from outside actors	• Little knowledge & experience available • Experience has to be crated by own forces	• Need for resource adjustment and completion • Resources are difficult to obtain	• Extension • Traditional stage model applies relatively well • Often co-operative modes with local actors to start with • Need to build up knowledge and relationships
The Lonely International (High degree of internationalisation of the firm, but low degree in the markets)	• Few actors in international markets • There are opportunities for experienced actors - they can access a wider number of markets	• The firm has experience, relationships and methods to handle operations in foreign countries • The firm can leverage its exiting relationships and experience	• It is easier to access multiple resources and create new combinations of them	• Extension, penetration and integration • The firm can "pull" its domestic suppliers and partners to international markets by building bridges between the markets
The Late Starter (Low degree of internationalisation of the firm, but high degree in the markets)	• Markets highly internationalised, many players exist, the firm is a starter • Internationalisation is a prequisite for business • The firm can be "pulled out" to international markets	• The experience can be acquired from suppliers and partners • Fast acquisition of knowledge needed • Relationships play a crucial role	• The competition for resources is tight • Relationships count, external resources are obtained mainly through them, no excess capacity available	• Extension • Utilisation of domestic contacts to extend the network • Acquisitions or joint ventures recommended • Timing of operations of high relevance
The International Among Others (High degree of internationalisation of the firm and the markets)	• The firm and its environment al highly international • Competition is fierce, activities in one market lead competitors to react rapidly	• Very experienced actors in international operations • All the actors have knowledge and experience and aim to develop it further	• Global resource allocation and utilisation, production and sales can be totally in different geographical places • Some functions can be "externalised"	• Integration, minor extension and penetration moves • The firm can influence the network patterns in various markets • The firm can possess and analyse multiple positions in multiple markets • Positioning in markets becomes the key to strategy

Source: adapted from Johansson and Mattson, 1988

a) The Early Starter

In the Early Starter situation the firm has few and rather unimportant relationships with firms abroad. The production net is also in the similar position. The firm possesses only little knowledge about foreign markets and it cannot count on its relationships on the domestic market in obtaining the information. Initiative to internationalise has often come from external sources, from foreign markets' vendors of distributors and they are also very often the counterparts in the initial operations.

The firm is in big difficulties in obtaining the necessary resources for international operations. The foreign operations demand a lot of time from the current personnel and the domestic operations may suffer from the foreign efforts. Thus, co-operative modes of operation with foreign market actors are very common. Problems occur in the control of the resources and in the quality of work standards. The firm has it difficult to control the operations in foreign countries, if it does not possess the local knowledge and learn from the experiences of the foreign network.

The network internationalisation method (see previous chapter) in use for the Early Starters is extension. It is to be noted that the traditional theories of internationalisation (e.g. the Nordic Stage Model) are very relevant in analysing the situations of the Early Starters. The similarities in this situation of them are very similar to the companies that were research objects in forming those models.

b) The Lonely International

The market environment of the Lonely International is not as international as the company is. The firm has gained experience in operation abroad and formed relationships with and in foreign countries. It has means and knowledge of handling different environments from domestic. It is also much further in the learning process of internationalisation that the other companies in the production network generally are.

Having larger relationship network, the firm is able to access and utilise a wider amount of resources in its operations. It is more capable of handling resource shortages in various areas and also able to adjust to them. It can access market knowledge faster and able to influence the product adaptation patterns in the foreign markets. It has also influence on the structure of the international business network.

The Lonely International can help its domestic network to become international. It can "pull" its suppliers or partners to international projects. Out of these the production net gains international experience and is thus able to access international resources. Customers of the production net can, and very often also are, the source for this kind of large international project through which networks can internationalise.

The preferred internationalisation methods for the Lonely International are penetration and integration. Yet, it can also utilise its experience in extending its operations to new markets.

c) The Late Starter

If the production network of the firm is more international than the domestically oriented firm, it is to be noted that the firm has already a large amount of indirect relationships to foreign markets through its domestic relations. Thus, the firm can become "pulled" to the foreign markets. This takes often place in "big" international projects in which either the main contractor of the customer demands international presence from the project participants. The firm can learn quickly about also very distant markets through these projects and be able to extend its operations to that market.

Still, the competition for resources for the Late Starter company may become difficult. The earlier internationalised companies possess more knowledge about the foreign markets and have existing relationships to key elements of the markets. For a newcomer, accessing these may turn

to be challenging, if not impossible. On the other hand, through domestic market contacts is possible to gain access to the crucial foreign resources, too.

The Late Starters are often very specialised to certain niche areas. They should be able to offer their services or products in these areas with competitive pricing schemes. Unless, they might run into tightly structured local networks which do not give them easily a fruitful position to operate in the market.

The preferred internationalisation method for a Late Starter is extension, but leveraging on the penetration strategy may turn out to fruitful in later phases. The Late Starters need to access the crucial market knowledge and obtain a position rapidly. Therefore, acquisitions or international joint ventures are often a preferred mode of market entry for them. The timing of operations is also very crucial. The Late Starters are busy already in gaining the position, thus no mistakes in timing of the operations are allowed.

d) The International Among Others

In the case where the firm and its environment are both highly international, Johansson and Mattson call the firm the International Among Others. A further internationalisation for this kind of firms means only marginal changes in extension and penetration. However, the international integration may imply even radical changes to the existence of the company. For the previous two methods the company has many possibility to leverage its positions in various foreign markets. Integration instead is a new area to be benefit from. The operations of the International Among Others firm have to be operated in global scale, i.e. utilise global resource pools, make local units to co-operate and share information etc.

The resource utilisation possibilities for the International Among Others are wide. It has the possibility to e.g. use the production capacity in one market to meet the customer need in another markets. The need for integration and co-ordination in operations is high. In some occasions the firm is able to out-source or "externalise" its operations. This takes often shape in international sub-contracting agreements.

The International Among Others has a substantial influence on the resource utilisation is its networked markets. It can use its powerful position to affect the production network to into targeted direction. It can thus indirectly also influence the resource utilisation of its competitors. Yet, the competition is fierce and the firm is also influenced by other international actors. This may lead to forming of strategic alliances and joint ventures for research and development or for certain markets.

Are the traditional internationalisation factors obsolete?

According to the traditional internationalisation approach[75] the internationalising company decides on

- the target product/market,
- the objectives in the target market,
- the choice on entry mode to penetrate the target country,
- the marketing plan to penetrate the target market and
- the control system to monitor the performance in the target market.

This approach is very straightforward and catches well the initial decisions to be made in the entry process. These decisions can be put into a list of questions and areas to be checked before the entry. One of this kind of lists is presented in Table 14. The questions presented should, according to the traditional approach give an answer to the company about the entry's feasibility,

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[75] This section is revised from Root, 1982 in Axelson and Johansson, 1992

entry mode and also on the choice of the local partner, form of segmentation, prioritise different markets to other markets, form the marketing mix the products and last but not least, provide the tactical and strategical tools for the company's operations.

Axelson and Johansson[76] argue that the presented approach misses the dynamic and accumulative nature of any business operation. They come up with a new list of questions that are based on the network approach to internationalisation. These questions are presented in the other column of Table 14.

Table 14: Traditional vs. Network Approach to International Entry Decisions

Traditional Internationalisation Entry Approach	The Network Entry Approach
a) Target Customers: Who buys the product? Who uses the product? How is the product used? Where is the product bought? Why is the product bought? When is the product bought? **b) The Macro-environment:** geography, climate, economic, socio-cultural, political/legal factors **c) Governmental:** regulations, tariffs, labelling, patents/trademarks, taxes **d) Competition:** price, performance, design or style, patent protection, brand name, services **e) Company's Product** What are the physical attributes (size, design, materials, weight, colour, other). What are product's package attributes (use instructions, warranties, repair/maintenance, spare parts, other), its expected profit contribution for each product adaptation? How will all of these match the market?	**a) Actors and Bonds Identification** What are the actors - customers, suppliers, competitors, public agencies in the business network? Which are the important relationships they have with each other and with other actors? Are they technical, social, administrative, legal of other ties? **b) Power Structures** What are the relative positions of the actors in the network? What are the roles of the actors and what power do they have in the network? What constraints does the network impose on the firm regarding, for example, possibilities of relating to other actors, areas, fields of applications, suppliers, etc.? What possibilities do specific potential partners in the network offer to the company as regards access to suppliers and resources controlled by others? **c) Own relationships** What are the relations of the focal firm in the potential country market? Which are the direct relationships.? How can they be used? Are there any indirect relations to actors in the potential host market, e.g. through contacts with partners in other local markets who in turn have direct relationships in the entry market? d) **Resource mobilisation** How can resources of other actors be mobilised in support of the market entry? Who of the related actors should be mobilised, why, for what and by what?

Source: adapted from Axelson and Johansson, 1992, p. 200-201

Axelson and Johansson[77] point out two additional points on the market entry. They argue that the *entry is never controlled by a single actor, it is rather about interaction between multiple parties*. Single actor can be aware of activities but it has no possibilities to control them. Second, the authors state that no *outsider is able to perceive the whole of the complex network*. A new entrant, e.g. the firm aiming for the market, can only see surface of the links and bonds between the organisations. Thus, the pre-entry check-up list, as presented above, may occur to become obsolete with knowledge increases of the market.

[76] Axelson and Johansson, 1992

[77] Axelson and Johansson, 1992

Managerial and strategical considerations about the new approach

To conclude[78], there are three main points to be noted from the network approach to international market entry. First, the entry is a *process which evolves over time*, it is not an event. The evolution is based on the interaction between the entering firm and its counterparts in the entry market. Also the domestic network is involved in the internationalisation, the firm extends its network and is thus able bring international contacts to the whole of its network.

Second, the company planning to internationalise should spend time in *orienting* itself to the new market conditions. The new business network has its existing actors and bonds. It is difficult if not possible for the entrant to find thoroughly about them. Yet, analytical approach and careful mapping process assists the firm to find about these crucial links between actors. Bonds between the newcomer and the target market develop gradually. Also trust between partners develop only gradually. It is very difficult to rush up this development.

Third, *market positioning* is important. As discussed in chapter 3.4 (p.26), each company have their position in the network, on micro- and macro-levels. The entering firm should be aware of the positions that the other companies have created for themselves. The newcomer will always create an market reaction and the actors will aim to counteract to it. Thus the dynamics of the position are of special interest in this sense. In addition of being aware, active role has to be taken. The entering company will define itself in the market by its partners and projects it is carrying out in the target markets. If the company has planned the order of the strategically important projects it wants to involve itself to, it is possible to affect this positioning. One minor position in one project may lead to a major position in another project.

Finally, the *timing of operations* is of critical importance. Opportunities for change appear at irregular intervals in the markets. It is difficult to estimate the exact of correct timing when to act. Thus, more importance should be put on the potentiality to react to changes than to the estimation of the timing. One way of guaranteeing this is to participate actively in the network, be present in the places where things start to happen. The company should be able to build its relationships and resources so that it can act rapidly and promptly to the opening opportunity. Otherwise, the opportunity window may be filled by somebody else or totally closed. In high-tech environment this is the ultimate situation. Strategic possibilities are very short on time, thus reaction speed is of utmost importance.

4.3.3 "Born Global" Metaphor

The network model of internationalisation has gained several acknowledgements around the research society. As one of the most comprehensive and collective papers to analyse the new paradigm was presented by Madsen and Servais[79] in 1997. They combine in a interesting way the network theory and the more traditional approaches to internationalisation. Their main rationale is to state that the internationalisation playground has changed radically and there are companies that are "born global", international ever since their birth. Thus, the traditional theories on gradual commitment or stage models do not explain their internationalisation.

Madsen and Servais have noted that the phenomena that they call born globals has been of research interest throughout 1990s. There has not been common agreement on the terminology to use. The suggested names for the same phenomena have been: *born globals* or *global start-ups* or *high-technology start-ups* or *international new ventures*. Yet, they point out the main characteristics between these different definitions are very similar and thus common agreement should be found and a framework for studying the phenomena should be formed.

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[78] This section is based both on own analysis and on Axelson and Johansson, 1992

[79] Madsen & Servais, 1997

Theoretical Background

The key points that Madsen and Servais present from the earlier theory are brought up in the following listing. These are not referred, in this context, as original sources, but as the authors Madsen and Servais have used them.

- First, Ovitt and McDougall[80] have defined an International New Venture as "*a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources from and sale of outputs in multiple countries*". These organisations start out wit a provocative international strategy - even though starting with only few employees/entrepreneurs.
- Second, McDougall & al[81] point out that start-up companies differ from established companies by their resource utilisation. They have only few resources to be allocated to e.g. distribution channels. Thus, the entrepreneur must *rely solely on hybrid structures* for controlling the sale and marketing activities (e.g. close personal relationships, joint ventures etc.)
- Third, Bell[82] has found out that the small computer firms are strongly influenced and internationalise by *client followership, targeting niche markets* and the internationalisation process is more industry specific than country specific, dependant on the physical distance to the export markets. He adds that all the firms do not establish themselves domestically before starting export operations. The main reasons for this lie, according to Bell, in prior experience of the entrepreneur or in the fact that the exports were initiated in the supplier search process abroad.
- Fourth, Jolly & al.[83] state that "high-technology start-ups" *operate their sales and marketing activities through a specialised network* in which they seek partners who complement their own competencies. They add that this is necessary due to the limited resource pool.
- Fifth, Lindmark & al.[84] state that the importance of domestic market learning has decreased. They conclude that that market knowledge, personal networking of the entrepreneur and/or international contacts transmitted from former occupations, relations, level of education are examples of such *internationalisation skills that may be obtained prior to the birth of a start-up firm.* These have a major impact on the strategy of the company.

Madsen and Servais have analysed the characteristics of the "Born global" firm. The main features are presented in Table 15. It is to be noted that the findings are very similar to the original network model presented in earlier chapter.

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[80] Oviatt and McDougall, 1994

[81] McDougall & al., 1994

[82] Bell, 1995

[83] Jolly & al., 1992

[84] Lindmark & al., 1994

Table 15: Traditional Firm versus "Born Global" Firm

	Traditional Firm (Established)	Born Global (Start-Up)
Resources	• Developed gradually • Resources build into the organisation	• Limited • Resources accessed via networks • Dependence on outside resources
Internationalisation Strategy	• Gradual commitment • Formation of stable units • Thorough and conservative planning	• Utilisation of hybrid modes • Dependence on networks • Client followership to new markets • Fast and intense extention • Highly dependent on the experiences of the entrepreneur
Industries	• Industrial manufacturing	• High tech companies • Professional Services
Markets	• Experiences in domestic markets are utilised in international markets	• Operations are directly planned to international markets, no domestic learning
Theoretical background	• Stage models	• Network models
Situation in the Network model (see earlier chapter)	• Early Starter	• Late Starter or International among others

Source: adapted from Madsen and Servais, 1997

Driving Forces for "Born Globals"

Madsen and Servais argue that there are three main factors that have changed the internationalisation environment of industries. These are: 1) new market conditions, 2) technological developments in the areas of production, transportation and communication and 3) higher level of capabilities of people, including entrepreneurs. They state that these factors are interrelated, e.g. more skilled personnel is more capable of taking advantage of the new possibilities.

By *new market conditions* the authors mean that amount of specialisation and thus number of niche markets have increased. Global logistics channels have enabled distribution of products directly on global basis. Also global financial markets have enabled new means of finance for operations. By *technological advancements* they refer to the possibility to have more efficient means of product delivery and communicate, i.e. via internet applications. By *increasing capabilities* they refer to that more and more people have become influenced by foreign cultures, spend time in foreign social context and thus having a larger contact network. Also the cultures around the globe have become more universal, less heterogeneous. To sum up, the authors forecast that these changes *will become more widespread* and thus, there will be more and more opportunities for "born global" enterprises.

Suggestions about the Born Globals

Madsen and Servais have come up with nine suggestions of the existence and internationalisation of born global companies (BGs). These are not scientifically proven but rather suggestion for further research. The propositions are:

- At the background of a born global there is nearly always one or several *entrepreneur(s) with strong international experience* and perhaps in addition a strong product
- The *more internationalised the market is, the higher is the number* of BG companies
- BGs are more *specialised in niche and higly customised products* than the traditional exporting companies
- The *geographical location* of BGs is determined *by the past experience* of the founders and partners as well as economic or customer related factors - directly in interaction.
- BGs are more *reliable on supplementary competencies* sourced from other firms and their distribution channels are more often dependent on hybrid structures, i.e. close relationships, joint ventures and network partnerships
- The *growth of BGs is directly related to the innovative skills* in R&D, distribution channels and partnership creation. These involve international relationships that require frequent, intense and integrated efforts across national borders.
- In the counties that the *domestic markets are small and limited*, the density of BGs is higher that in large domestic market countries.

4.4 Service Business Internationalisation Considerations

This chapter illustrates in some of the recent findings from the studies about professional service busines internationalisation. It also summarises two of the most recent internationalisation studies carried out about Finnish professional business services.

4.4.1 Service Business Companies' Internationalisation Differ from Manufacturing Companies

Aharoni[85] states that professional business services differ from the manufacturing industry based approach to international operations and internationalisation processes. He claims that the internationalisation theories presented do not apply directly to internationalisation service business, more explanatory theories are needed. This argument is supported by several more recent studies.

For example, on their study of the internationalisation of 122 Finnish SMEs, including several service companies, Holmlund & Kock[86] found out that the *business network that an SME has an significant impact on the internationalisation process*. Their rationalisation to this has three arguments. First, the *resources and information needed in internationalisation is accessed through networks*. Second, *the operational mode for an SME is most often indirect* and thus the enterprise is dependant on another actor at foreign markets. Third, the *entrepreneur was found out be heavily dependant on his/her personal social network* in search of information and partners. The authors argue that it is essential for an SME to create and maintain both strong and weak relationships to other individuals. They point out that weak relationships can be used in e.g. obtaining information about upcoming orders, while strong relationships can be used in making decisions concerning internationalisation.

[85] Aharoni, 1993, p. 135

[86] Holmlund & Kock, 1998

In addition, O'Farrell & al.[87] point out in their analysis of British professional service companies several interesting arguments about service business internationalisation. They analysed 135 companies that had international experience and found among others that:

- First, *involvement with foreign markets is not necessarily associated with investments in contractual arrangements or foreign direct investments*. This is because of the control of personnel expertise and client relations form the basis of business service development in all the markets. The expansion to international market is mostly originated from the service company's clients. Foreign market entry for service companies is a casual process. It occurs when the company obtains an agreement from a foreign customer or from domestic customer's foreign unit.
- Second, *service companies can "dip their toes" i.e. test international operation in different markets more easily than manufacturing companies*. They do not have to invest large sums to international trials, they are more flexible to try out project-based operations in various locations.
- Third, *the service companies have it more difficult to establish permanent presence than manufacturers*. The foreign operations carry significant opportunity costs in establishing the necessary infrastructure, including foreign market expertise. At the same time the internationalising company has to sustain the domestic operations with the core personnel. The foreign operation takes more time and resources than concentrating on the domestic customers' problems.
- Fourth, *service firms carry out foreign operations often due to their reputational character*. Foreign assignment enable professional service companies to increase their position at the "eyes" of the domestic customers, even though they may not be profitable.
- Finally, *service companies are often unaware of the opportunity costs related to foreign operations*. They charge for their foreign operations the same cost than from domestic project. Thus, the companies create unprofitable projects. Operations abroad are more expensive and time consuming to them than they expect them to be.

It can be argued, that **service business differs from the internationalisation of manufacturing companies**. There seems to be a common understanding on this. To have a clearer picture of the characteristics that the Finnish professional service business has, the following chapters summarise findings from some of the studies that have analysed the sector in Finland.

4.4.2 Level of Internationalisation in the Finnish Service Sector

Pietikäinen and Tynnilä[88] have analysed the internationalisation of Finnish service sector. They *based their analysis on the stages model approach*. As one of their main conclusion the authors state that service sector as a whole is very domestically focused in Finland.

Pietikäinen and Tynnilä analysed a total of 62 Finnish service companies in six different service sectors and classified them into three categories according to their level of internationalisation. They found out that 53 % of the service companies had international operations. Their findings of the level of internationalisation is presented in Table 16.

[87] O'Farrell & al. 1998

[88] Pietikäinen & Tynnilä, 1994, p. 154

Table 16: Level of Internationalisation in the Finnish Service Sector (in 1994)

(n=62)	Have foreign operations	Plans to start foreign operations	No plans to start foreign operations
Companies operating only locally	46 %	11 %	43 %
Companies, which have operations outside their local markets	59 %	21 %	21 %
TOTAL	**53 %**	**16 %**	**31 %**

Source: Pietikäinen & Tynnilä, 1994, p. 95

The authors analysed the level of internationalisation also by service sector. They had six sectors in their analysis and out of these the most internationalised sector was management consulting and training. This is interesting due to the fact that management consulting is related to new media industry and it is true knowledge intensive professional business service. The service sector level findings are presented in Table 17.

Table 17: Level of Internationalisation by Service Sector

Service Sector (n=62)	Foreign Operations	Plans to start foreign operations	No Plans to Start Foreign Operations
Security	33 %	22 %	44 %
Cleaning and Maintenance	42 %	17 %	42 %
Catering	50 %	10 %	40 %
Health Care	45 %	27 %	27 %
Wholesale and Retail Trade	56 %	11 %	33 %
Management Consulting and Training	91 %	9 %	0 %
TOTAL	**53 %**	**16 %**	**31 %**

Source: Pietikäinen & Tynnilä, 1994, p. 96

Pietikäinen and Tynnilä found out that the Finnish service companies used mainly non-investment operations in their internationalisation. The most common operation mode was direct project exports (35 % of all operations). 26 % of companies were exporting services directly from Finland. 22 % of the analysed service companies had established international presence. The findings are presented in Table 18.

Table 18: Foreign Operations of the Finnish Service Companies (in 1994)

(n=62)	%
Direct Investment Operations	
Subsidiaries abroad	22 %
Joint ventures	2 %
TOTAL	**24 %**
Non-Investment Operations	
Export of services	26 %
Licensing	4 %
Franchising	5 %
Project Exports	35 %
Co-operation arrangements	6 %
TOTAL	**76 %**

Source: Pietikäinen & Tynnilä, 1994, p. 97

The operations were also analysed by the service sector. The authors present only the used methods, which does not give an precise picture of scale of the of each operation mode in each sector. Yet, it can be noted that management consulting is again the most internationalised sector and that the companies in that sector are using nearly all the possible methods for their internationalisation.

Table 19: Foreign Operations by Service Sector (in 1994)

Service Sector (n=62)	Export of Services	Licens-ing	Franchis-ing	Project Exports	Own Units	Joint Ventures	Co-Operation
Security				x			
Cleaning and Maintenance	x	x		x			
Catering	x			x	x		
Health Care	x			x	x	x	
Wholesale and Retail Trade	x				x		x
Management Consulting and Training	x		x	x	x	x	x

Source: Pietikäinen & Tynnilä, 1994, p. 97

Pietikäinen and Tynnilä argue in their conclusions that that Finnish service companies seemed have chosen a very risk-avoiding and small step strategy towards internationalisation. The most common reason for international operations was found out to be following their domestic clients abroad.

Pietikäinen and Tynnilä[89] analysed also the internationalisation obstacles for the Finnish service sector. They divide the obstacles into three categories: firm, , home country and target country-levels. In the analysis, their service companies were divided also into three classes: into the companies involved in to foreign operations, those planning of them and those with no intention to internationalise. There are significant differences between the three classes. The main obstacles are related to the knowledge of the target markets and to cultural differences. The findings of the analysis are presented in Table 20.

[89] Pietikäinen & Tynnilä, 1994, p. 128-132

Table 20: Main Obstacles for Internationalisation in the Finnish Service Sector

Obstacles	Service firms having foreign operations	Service firms with plans to internationalise	Service firms with no intention to international-ise
Firm Level			
• Finance	-	-	47%
• Decision-makers know-how of the target markets	51 %	90 %	42 %
• Other personnel's know-how of the target markets	58 %	70 %	-
• Skills of the personnel	51 %	80 %	42 %
• Cost competitiveness	54 %	-	-
Home Country Level			
• Weak profitability of the industry		50%	-
• Finland's peripheral location	54 %	70 %	52 %
• Price level	51 %	-	-
• Labour costs	54 %	-	-
Target Country Level			
• Selection of competitive services	51 %	-	-
• Availability of professional labour	57 %	60 %	52 %
• Official languages	54 %	70 %	47 %
• Barriers to trade	-	60 %	-
• Taxation	-	50 %	-
• Political conditions	-	50 %	-
• Cultural differences	57 %	70 %	-

Source: adapted from Pietikäinen & Tynnilä, 1994, p. 130-132

4.4.3 Experiences from Two Finnish Professional Service Sector Internationalisation Processes

Internationalisation of the Finnish Management Consulting Sector

Pietikäinen & Tynnilä[90] have analysed that internationalisation obstacles in the Finnish management consulting business. As pointed out in the earlier chapter , management consulting is a professional business service, and the companies that the researchers discussed with, were the most internationalised of the Finnish service companies in their analysis. Furthermore, management consulting is also one of the activities in the new media industry.

The authors point out that international connections and internationalisation are well understood in the industry. The main obstacle for internationalisation lies in personnel problems. They have

[90] Pietikäinen & Tynnilä, 1994, p. 149-151

only limited human resources and sending even one person from the team would cannibalise the domestic business. Also the internationalisation related skills of may become an obstacle for the operations. The domestic personnel may not possess the required skills or there may occur extensive problems in obtaining skilled enough personnel from the foreign markets. The management consultant companies emphasise the importance of the cultural understanding. They are in a very customised and high-trust business and to succeed in their foreign projects, they need to thoroughly understand the environment the international customer is operating. Table 21 summarises the findings of the researchers about management consulting.

Table 21: Internationalisation Obstacles for Finnish Management Consulting and Training Companies

Obstacles for Management Consulting and Training	**% of companies**
Firm Level	
• Skills of the personnel	63 %
• Know-how of the target countries	54 %
• **Home Country Level**	
• Finland's peripheral location	63 %
Target Country Level	
• Selection of competitive services	63 %
• Quality of competitors	55 %
• Official languages	55 %
• Cultural differences	81 %

Source: Pietikäinen & Tynnilä, 1994, p.151

Internationalisation of Finnish Advertising Agencies

Aarnio[91] has analysed the internationalisation of the Finnish advertising agencies. She used the *stages approach* for the analysis. She found out several interesting points about the internationalisation, which has implications also for the analysis of the internationalisation of the new media industry. Advertising and interactive marketing is one of the main functions of the communications related new media business. The main findings of Aarnio are listed here below:

- The sole internationalisation strategy and method for the advertising agencies was *strategical alliances*. The Finnish agencies had not established any presence abroad they had only joined international advertising agency chains. These chain have operations all around the globe. The strategic alliances are divided into *ownership (partial or total) and non-ownership alliances*. The main rationale for this was that the domestic markets are too small to gain the sufficient experiences and critical mass to extend own operations abroad. It is seen better to focus only to serving domestic customers in Finland. The international knowledge is acquired through the chain, not by own trials.
- *Joining an international chain by ownership initiated by the international chain*. The chain decided to establish its operations in Finland and turn to purchase or make an agreement with a Finnish agency. At the beginning of the co-operation activities are non-ownership related, but after a couple of years of co-operation, the chain aims to acquire partial or total ownership of the Finnish agency. Consequently, *joining into a international chain with non-ownership agreements is most often initiated by the Finnish agency*. These chains have no headquarters and are not stock listed. They are a chain of independent offices that agree to co-operate, but still remain independent. Examples of these can be found also from law and auditing sectors.

[91] Aarnio, 1999 in Hansén, 1999, p. 39-76

- *Neither of the chained agency types are serving foreign customers at foreign markets*. The agencies that chose to join an international chain by ownership are mostly working on consumer related advertising. They see that they have no possibilities in obtaining international large clients without being part of the chain. Actually, these agencies have with this strategy obtained global customer's Finnish operations. On the other hand, the non-ownership chained ad agencies are mainly serving business-to-business customers. These are often Finnish high-tech companies with strong international focus. The chains are not serving global customers, but rather solely Finnish customers abroad.
- *Start-Up and younger agencies prefer to remain independent, while more stabile established agencies have turned into to ownership arrangements*. The entrepreneur-spirit seems to be the main motive for the younger agencies for holding to their ownership.

According to Aarnio the chosen approach - *the stages model - does not explain thoroughly the internationalisation patterns of the advertising agencies*. She suggests that a network approach would give an more precise picture of the industry. She classifies the Finnish agencies into two classes according to their approach for internationalisation: *customer followers and client seekers*. Yet, she points out, that the ambition level for internationalisation of the Finnish ad agencies in not high. The companies have not started to establish their offices abroad or neither they have sought for foreign customers at foreign markets.

Attitudes of the entrepreneurs is the main obstacle for internationalisation, Aarnio argues. They minimise risks and see advertising as mainly domestic business. She also points out that *internationalisation would demand expensive resources* that the agencies do not possess at the moment. Nevertheless, she is very confident that there exists special knowledge in the Finnish agencies that would have international market value. The Finnish companies *are advised to find these competencies and to join domestic forces*, e.g. by mergers, to have more international influence. "*Joining international chains is not the most beneficial method for the Finnish economy*", she concludes her analysis.

PART III: Hypotheses and Methodology

5. Preliminary Theoretical Framework

This research has an objective to apply the theory presented in the earlier chapters to one of the most rapidly developing professional business service sectors in Finland - the new media industry. To make the analysis more precise, several hypotheses were formed to be tested in the research process. Furthermore, this chapter will present the research framework to be also tested in the industry study. The framework is also based on the main elements presented in the earlier chapters.

5.1 Hypotheses

To challenge the theory and test certain opinions about the research topic, four hypothesis were formed. These will be presented in this chapter and the discussion of the hypotheses reliability is in chapter ten.

5.1.1 Hypothesis 1 (H 1): The internationalisation new media industry does not differ from other professional service businesses

New media is still a new phenomena and the companies operating in the industry have their special characteristics. Yet, in this research it is stated that the industry's internationalisation has the same problemacy than any other professional service business. Problems that occur in the internationalisation are very similar to the ones in advertising agencies and consulting companies. It is further stated that some new media companies have picked up characteristics from software companies.

Internationalisation has during the last few years become more and more crucial for operating in the industry. The Finnish companies have started focusing to international markets. It is still unsure that how aware the companies are of their problems similarities to other service industries. In addition, there is no knowledge about the companies' capabilities to utilise the internationalisation experience accumulated to other Finnish industries.

5.1.2 Hypothesis 2 (H 2): The main driver for internationalisation is demand for continuos growth

The new media industry's valuation in the markets is all about belief in the "revolutionary" power of the phenomena. It is stated that electronic commerce, mobile multimedia solutions and new business concepts created around the internet technology would change dramatically the way work and life is carried out. Whether this is true or not, yet the companies in the industry want to leverage this boom by meeting the growth requirements of their financiers.

The solutions that new media companies make are based on a global technology. They can be with small adjustments, in most of the cases, to be localised to other markets. Also the services that new media companies offer are global in their existence. Yet, the domestic market offers only limited possibilities for a Finnish company to grow or serve the customers in the selected technological niche market. Thus, it is argued that the main driver for Finnish new companies to internationalise it is to continue with pace of growth the industry has experienced in the last few years.

5.1.3 Hypothesis 3 (H 3): The main success factors in internationalisation of Finnish new media companies is the utilisation of business relationships across borders

As third hypothesis, it is argued that the positions that Finnish new media companies hold in their present business network have the most important impact to the success of their interna-

tional operation. If the company has, e.g. been able to supply successful productions to the leading mobile telecommunications company, Nokia, and been active in its business networks, it may have great potential of leveraging this position in foreign markets, too. Successful and functional production network relationships in the domestic markets will help the company to operate in the international markets.

Finland is located geographically in a disadvantage positions to e.g. the Central European markets. For a Finnish company aiming for the market has to find way to extend its business relationships to the new market areas. Either the entrepreneur in the company, the owners, company's customers, governmental organisations or some other party in the business network have to possess the "opening" contacts to foreign markets. The small companies themselves do not possess the resources for creating the required contact network purely by themselves, or at least it is too time and resource consuming in the rapidly evolving markets.

5.1.4 Hypothesis 4 (H4): The main internationalisation operation channel for new media companies is leveraging the existing customer relationships

The fourth and last hypothesis is related to the third. If business relationships are in crucial place in the internationalisation process, it can be argued that the existing customer relationships will be the key for the new media companies to internationalise. There are several Finnish multinational or international companies that need new media services around the globe. Also there are several multinational or international companies that have operations in Finland. Furthermore, many small of medium-sized Finnish manufacturers or companies are seeking from new opportunities in international markets and new media companies could gain growth by serving them in this. Finally, the Finnish Government has invested heavily on building up world-class governmental services. This knowledge has also a great export potential to any other country. Yet, companies to export this know-how are rare.

The new media companies have been focusing recently in creating long-term customer relationships. Yet, they are not yet serving their customers in international scale. There is also the threat of foreign service companies in coming to challenge the few potential customer relationships of Finnish companies by a larger network and more sophisticated reference record. It is to be seen that are the Finnish companies prepared for this kind of challenges. It could be, even without any research, stated the Finnish technological know-how is at high level and there is a huge potential for exporting it.

5.2 Presentation of the Framework

The issues to be analysed in this research can be put into a framework that will be presented in the following. The framework is heavily based on the network theory. It has elements from the internationalisation theories presented in chapter four. The network approach is chosen due to the fact that it has not been applied to many Finnish industries and also because of the special characteristics of the new media industry. E.g. Ruohomäki[92] argues that "*the research focus in the Finnish new media industry should be changed from value chains into network theories and production process and sub-contracting process controlling analyses*"

There are six main elements in the model. First, in the new media industry, there are several **actors**. These will be identified and their relationships will be discussed. The actors are located geographically in Finland and abroad. They come from multiple industries and form different kind of coalitions dependant on the project or operation they work on.

Second, the actors perform **operations** (activities) both in domestic and international markets. These operations are carried out either by own or joint initiatives. The operations decide an the success of the firm in its business.

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[92] Ruohomäki, 1999 in Jokinen, 1999, p. 36

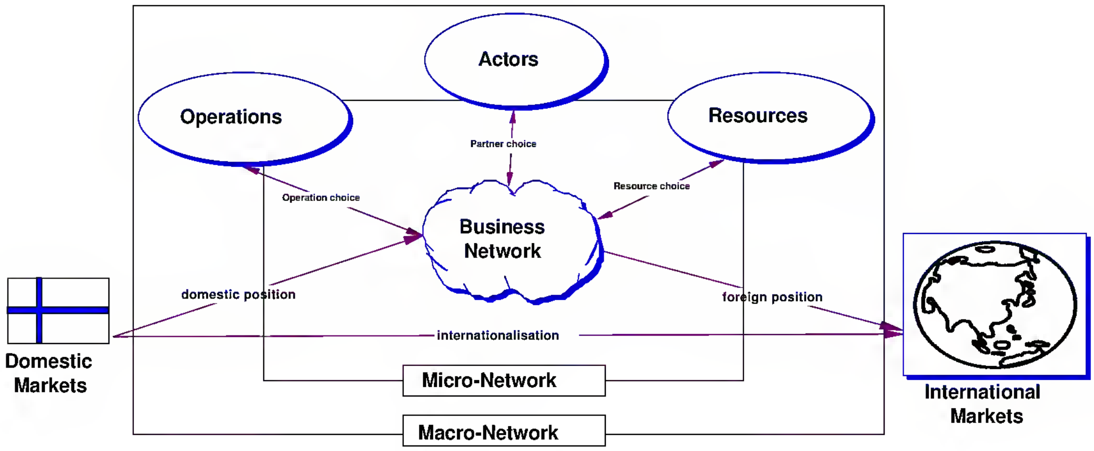
Third, each activity demands **resources**. These are either human and physical (see chapter 3.1.) The resources are always owned by some actor and they are a necessity to perform activities. Resources are located both in home and foreign market. Companies compete about the control of resources.

Fourth, each company compete both domestically and internationally inside its business network. They are constantly making decisions of the preferred partners, activities and the resources to use in them. These choices are called: **Operation choice, Partner choice and Resource choice.**

Fifth the choices the company has made in the past and will make in the future define its position in it **business network**. Each company operates in two levels of networks. By its *micro-network* it meant the day-to-day contact network the company has. By its *macro-network*, it is meant the holistic situation the company has in comparison to all the companies in the industry.

Last, the internationalising company is experiencing the formation of its **foreign position**. This is based to the choices it makes about and about its domestic position. Consequently, there are both micro and macro-network positions in the international markets, too. The framework is presented in Figure 13

Figure 13: Internationalisation Framework



The objective of the field study is to define the elements of the new media business network in regard of the Finnish industry. The elements for the keys for a company planning to internationalise. Each company's position and elements are always different. Yet, it is believed that there will be similarities and generalisations about the internationalisation patters in the Finnish new media industry that are of great value.

As a result of the analysis process, a business network model of the Finnish new media market will be presented both in written and in graphical formats. The dynamics are also aimed to be illustrated. The formation of the model will consist of following stages:

- Identification of actors
- Identification of crucial resources
- Identification of activities in the international markets
- Analysis of the interdependence of the key elements
- Analysis of the position of the Finnish new media industry in the international markets
- Analysis of the development trends in the business network
- Actual formation of the model

The results of the network model formation will be presented in chapter 10.4.

6. Methodology

This chapter will present the methodology used in the empirical research. It will also discuss the reliability and validity of the research findings.

6.1 Research Design

The field of interactive media is a demanding area for research. Industry is growing rapidly, technology is developing constantly and the business focus of the companies is changing at a approximately two year cycles. Also new companies emerge, many old actors merge and some disappear. This chapter analyses the options that there would be for analysing the phenomena and presents the chosen methodologies.

Qualitative vs. Quantitative Research Approach

Considering empirical method alternatives for this research lead directly to consideration of the strengths and weaknesses of qualitative and quantitative method choices. Qualitative and quantitative methods constitute alternative research strategies but they are not mutually exclusive. It is possible to collect both qualitative and quantitative data in the same study.

The **qualitative method** of gathering empirical data can be defined as a method which produces descriptive explanations to *why* things are the way they appear to be, whereas **the quantitative method** often produces *numerical facts about things*[93] Therefore, the qualitative method is evolutionary, with a problem statement, a design, interview questions and interpretations developing and changing along the way in contrast with the quantitative method which seeks explanations and predictions generalisable to other instances. With quantitative methods it may be possible to assess that a change has occurred over time but it is nearly impossible to say how (what processes were involved) or why (in terms of circumstances). Qualitative methods are sensitive to issues of this kind. [94]

In quantitative research approach, the focus is on the measuring instrument – survey questions or other measurement tools. The measuring instrument must be administered in a standardised manner according to prescribed procedures. The use of standardised measures leads to fitting varying perspectives and experiences of people into a limited number of predetermined response categories[95]. By contrast, in qualitative survey the researcher is the instrument and relatively little standardised instrumentation is used at the outset[96]

One possibility in implementing a research is the use of a quantitative study with a large survey. According to Yin[97] a survey is a good research method to a study that wants to answer research questions like “what”, “who”, “where”, “how much” and “how many”. It offers a great amount of information but it does not go deep enough. Consequently, it can be said that a holistic overview of a phenomena would not be gained through a sole quantitative survey.

The advantage of a quantitative approach would be that it is possible to study reactions of a considerable amount of research objects with a limited set of questions, which facilitates comparison and statistical analysis of the data. Qualitative methods, on the other hand, usually produce detailed information about a much smaller number of people and cases, which increases understanding of the cases but diminishes the possibility to make generalisations.[98]

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[93] Solatie 1997, p. 11

[94] Glesne & Peshkin 1992, p. 6

[95] Patton 1990, p. 14.

[96] Miles & Hubermann 1994, p. 6.

[97] Yin, 1988, p. 17

[98] Patton 1990, p. 14

Another possibility for the research design would be the **case study method**, which is either a single case or a multiple case study. A case study strategy is preferred when research questions like "*how*" or "*why*" are posed and when the focus is on a contemporary phenomenon within a real-life context[99]. The case study method suits especially well such research, which aims to generate new information out of qualitative material on a previously scarcely investigated field of research, such as new media. The unique strength of the case study lies with its ability to *deal with multiple sources of evidence* such as e.g. documents, archival records, direct observation, interviews, participant-observation, and physical artefacts[100]. Indeed, a good case study will use as many sources as possible in order to allow the researcher to address a broader range of historical attitudinal, and behavioural issues[101].

Triangulation Guarantees the Quality of Findings

As the phenomena of new media is new and non-explored, especially in it internationalisation aspects, the research design had to be strong for providing the accurate results. Patton[102] point out that triangulation, i.e. combination of multiple methods to a same study, is a powerful way for this. In practise this means of using both quantitative and qualitative approaches simultaneously. There are four types of triangulation. These are

- *Data triangulation*: using variety of data sources
- *Investigator triangulation*: using several different researchers of evaluators
- *Theory triangulation*: use of multiple set of perspectives to analyse a single set of data
- *Methodological triangulation*: use of multiple methods to a single problem or program

In this study triangulation was used as in all its formats. *First*, the data used and collected was both quantitative and qualitative. The researcher used had in use the most recent publications about the phenomena and these were revised with the data collected. *Second*, the research was at most of its stages carried out with multiple researchers at the Interactive Media Research Group. The group held several meetings to confirm the pre-thought findings. Also outside evaluators were used through the steering board of IMG. *Third*, the theory that was used in the research was summarised from multiple different approaches. The main approaches that were discussed included the professional business service theory, business network theory, stages model of internationalisation and the network model of internationalisation. The recent findings from the studies were also reflected to the theoretical models. The different approaches gave multiple insights to the data analysis and conclusions drawing occasions. *Fourth*, the used methods included a literature review, a quantitative survey, qualitative interviews and qualitative case studies. This guaranteed the multiple methodological approach to the phenomena.

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[99] Yin 1988, p. 13

[100] Yin, 1994, p. 78

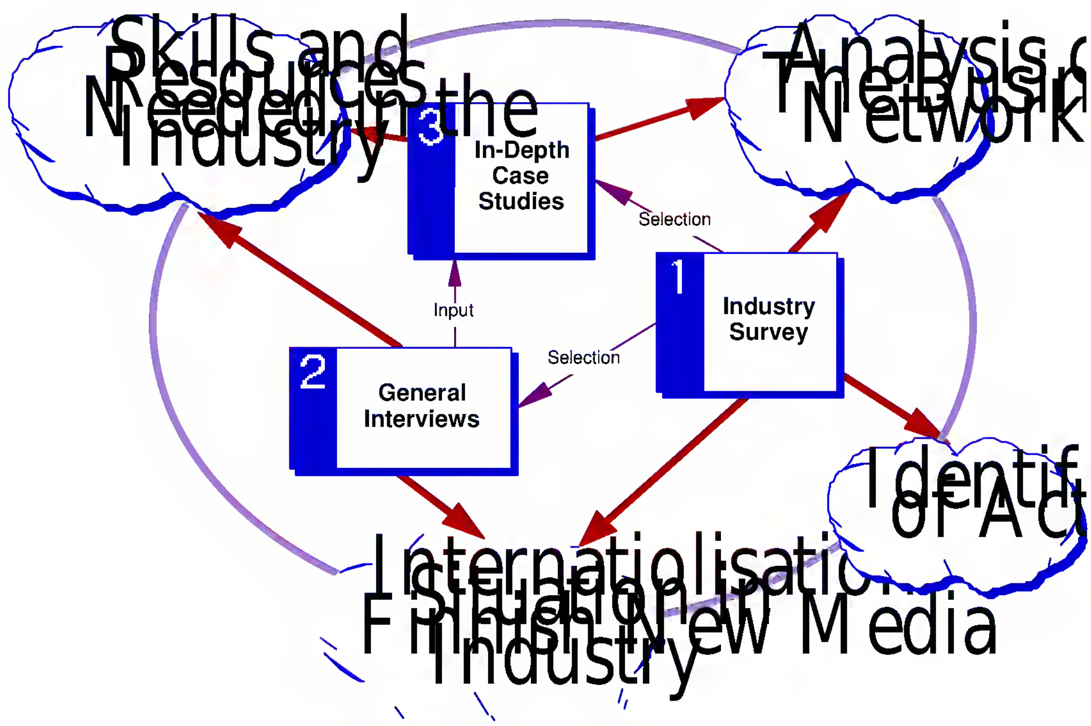
[101] Yin, 1994, p. 92

[102] Patton, 1990

The Chosen Research Methodology

There were three separate methods, an industry survey, general interviews and finally, in-depth case studies. The interrelation of the methods is presented in Figure 14.

Figure 14: The Research Methodology



There were four main objectives in the field study

- to identify the main actors in the industry (industry survey)
- to analyse the internationalisation situation in the Finnish new media industry (industry survey and general interviews)
- to identify and analyse the skills that the companies need or lack of in their internationalisation efforts (general interviews and in-depth-case studies)
- to analyse the business network structure and micro and macro positions of the companies in the new media industry (industry survey and in-depth case studies)

The targets were reached by using inputs from multiple sources. The data collected by own resources was also supplemented with the most recent consultant reports and extensive information collection from the internet. The research findings will be discussed in the next two chapters and then on chapter 0 the findings are linked to theory of internationalisation and the research framework and hypotheses. Table 22 below presents the objective of the research and shows the relationships of them to the research questions, tasks and methods.

Table 22: Research Stages, Questions, Tasks and Methods

Objectives	Research questions	Description of research tasks	Used methods	Chapters
Identifying and defining new media industry and analysing its characteristics (macro-level)	1. What are the characteristics of new media industry as a professional business service?	• Identifying the new media companies in Finland • Analysing the industry as a service	• Literature review • Industry Survey • General interviews (12)	Ch 2 & 3 Ch 7 & 8
Analysing the new media industry's internationalisation patterns (micro/macro-levels)	2. What resources are new media companies utilising and lacking of in internationalisation? 3. What are the modes in use and to be used in internationalisation of the industry?	• Identifying the critical resources of the new media companies • Describing the internationalisation patterns of the Finnish new media industry	• Literature review • Industry Survey • General interviews (12) • In-depth case studies (2)	Ch 3 & 4 Ch 7, 8 & 9
Business Network Analysis	4. How can additional resources be obtained by utilising business networks?	• Conclusions of the research findings • Formation of the business network model • Creation of recommendations to related parties	• Research findings • Conclusions	Ch. 10 & 11

6.2 Implementation of the Research

The New Media Industry Survey

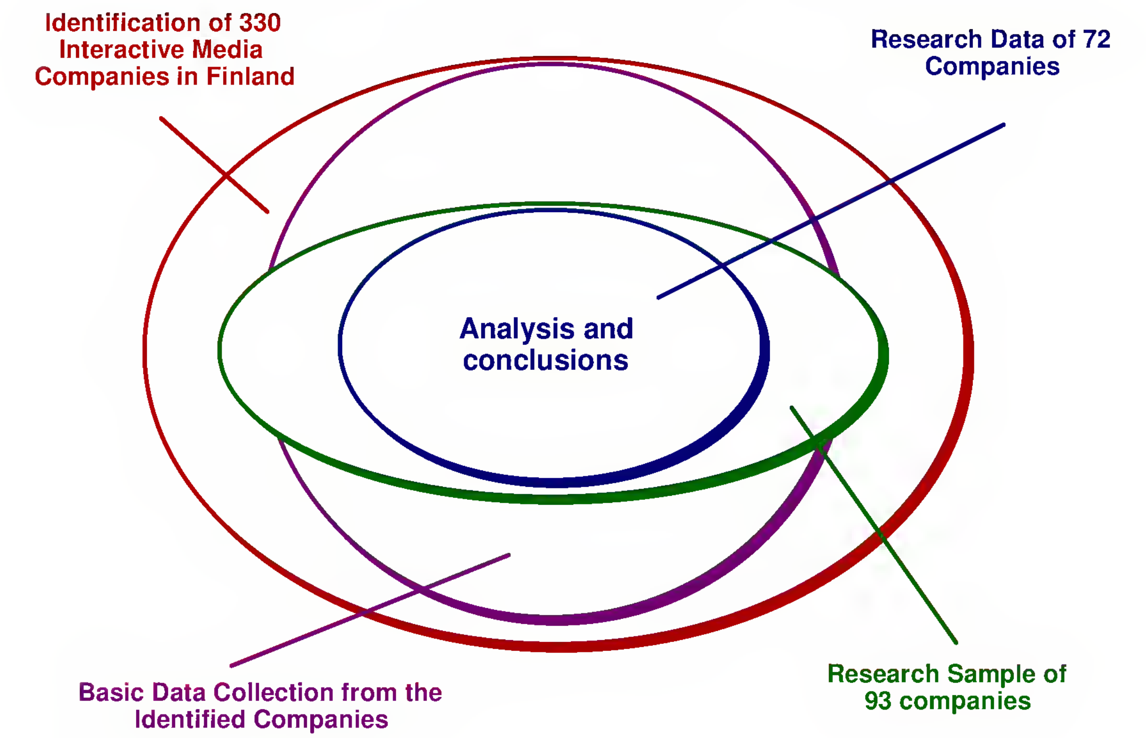
The industry survey was carried out as project in the Interactive Media Group of LTT-Research Ltd. at the Helsinki School of Economics and Business Administration. Author of this research worked as one of the group members. His responsibility in the four-person project group was to focus on the internationalisation and knowledge aspects of the industry.

Survey was carried out during September 1998-January 1999. It had four stages. First, the main actors were identified from multiple sources, e.g. the internet domain register of Finland, extensive WWW-browsing, various electronic and printed catalogues as well as the existing database from the similar survey carried out in 1997 at the same research institute. As a result a preliminary database of 350 Finnish new media companies was formed. Second, to make the data more accurate the companies in the database were sent electronic mail and later inquired by telephone about their activities, turnover and personnel data (see appendices). This data was received from 193 companies. It was further supplemented by information received from the Finnish Company Registry. As a result of this, it could be argued that there were approximately 330 companies operating in the Finnish new media industry in autumn 1998.

Third, to collect more detailed data of the companies, a research sample was formed. The objectives in the forming of this was to choose the companies to cover the whole of area of Finland. The sample consisted of 93 companies, which were spread around the country to the same extent than the actual number of in the group of 330 companies. The questionnaire was filled in the internet at HSEBA's WWW-server and included quantitative and open questions (see appendices). Total of 72 questionnaires were received (78% of the sample). The aerial representation was consistent with the original goals.

Fourth, the data was analysed with quantitative methods. It was entered into the database. Main variables were statistically handled. The most important variable were cross-tabled and the open questions were analysed carefully. The findings were then reported with tables and graphs. As a result of this, a clear picture of the situation in the Finnish new media industry was formed. The project published a separate report of this work and it was published in March 1999. Yet, several variables and point of views were not included in that report. The internationalisation aspects arising from the data were handled in more detail in this research.

Figure 15: The New Media Industry Survey



Twelve General Interviews

Selection of the companies

To understand the situation inside the companies more thoroughly and have a clearer view of the skills needed in the industry, a closer touch to the industry was needed. This was obtained by general interviews. The criteria to choose the companies was number of its personnel (minimum 10) and turnover (minimum FIM 3 million). There were approximately 20 companies in the databases that filled that requirements, out of which twelve companies were chosen to be interviewed. Case companies were selected carefully - sampling was more purposive than random[103]. Deliberate, theoretical sampling is especially useful for testing a model since the approach allows choosing cases which are likely to replicate or extend the emergent theory[104].

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[103] Miles & Huberman, 1984, p.37.

[104] Eisenhardt, 1989, p. 537-538.

These case companies included one international new media chain, two advertising agency-originated, two media-company related, and seven independent companies. The interview sample is presented in more detail in Table 23. The logic behind selecting twelve companies to the sample was theoretical saturation. This meant in practise that when incremental learning from new cases was minimal, the sample was sufficient[105].. This was the case in the interviews.

Table 23: Generally Interview Companies

Group	**Advertising agency related**		**Media company related**			
Company	**AD1**	**AD2**	**M1**	**M2**	**M3**	**M4**
Turnover 1998	15 M	5 M	30 M	8 M	15 M	10 M
# of personnel (at the time of the interview)	44	12	100	27	57	30
Origin	Ad Agency	Ad Agency	Media company formed by acquisitions	Formerly independent, now partly by media company	Formerly independent, now partly by media company	Formerly independent, now partly by media company
Special	Interactive Ad Agency pioneer	Creative design and IT systems	The market leader, venture capital, high growth targets	Innovative design, origin, pioneer in Finnish multimedia	Pioneer in Finnish multimedia	Pioneer in Finnish multimedia

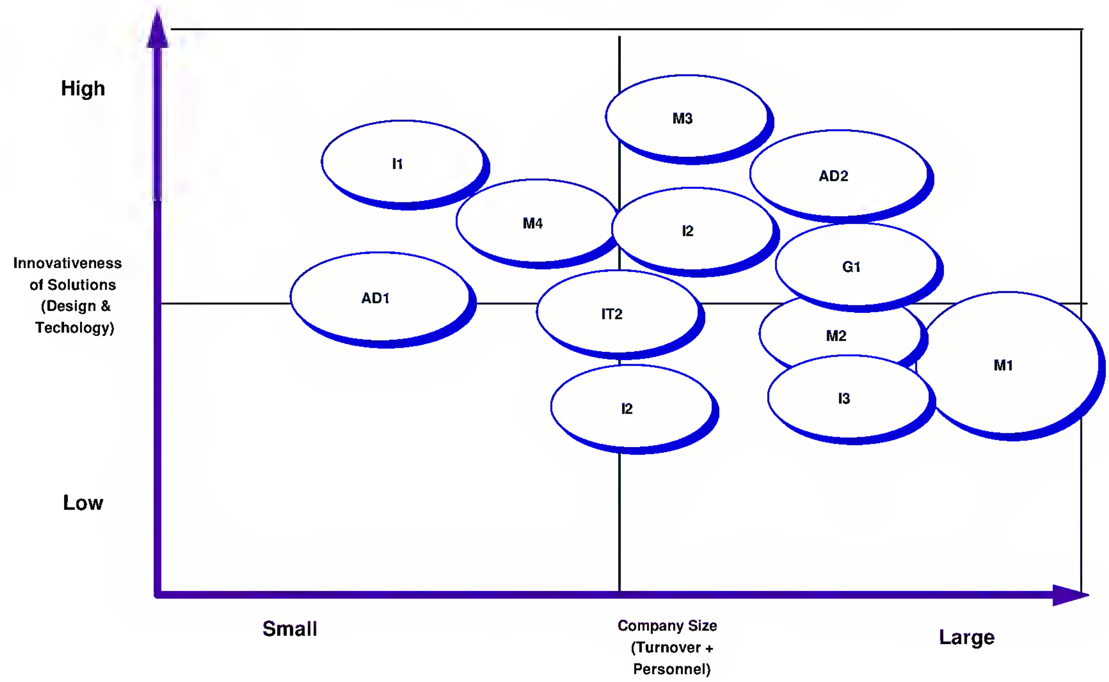
Group	**IT company related**		**Independent**		**Listed**	**International**
Company	**IT1**	**IT2**	**I1**	**I2**	**L1**	**G1**
Turnover 1998	8 M	8 M	6,5 M	3,5 M	20 M	11 M (in Finland)
# of personnel (at the time of the interview)	19	22 (in the network around 300)	18	25	50	20 (in Finland, globally 300)
Origin	Formerly independent, now by IT company	Formerly independent, now partly telecommunications company	Independent	Independent	Independent, now at publicly held at HSE	Formerly independent, now part of international chain

[105] Eisenhardt, 1989, p. 545

Special	Highly profitable, Systems and design	Design and EU support	Development from CD-ROMS to IT systems, Venture Capital	Basing operations on Linux OS	First to he stock quoted, IT systems	One of the world market leaders

The companies were also classified according to the perception of innovation and corporate size. Figure 16 presents this framework. As it can be seen, the most innovative companies were not largest in business operation size and vice versa. It is to be mentioned, that this classification is purely subjective due to the fact, that it is difficult to compare the levels of innovation between differently focused companies. Yet, the main point in the framework is that small companies are more flexible and most probably innovative, but larger companies are more growth seeking and have more resources to invest in product and process development.

Figure 16: Classification of General Interview Companies



The Interview Process

The interview with the company representatives were carried out in October-November 1999. These were structured according to a generic framework (see appendices). The interviews lasted around one and a half hours. They were carried by out two interviewer, the author of this research and a member from the Interactive Media Research Group. Interview guide was not followed literally but adjusted to the situation at each site. This approach gave the researcher freedom to make adjustments during data collection process. It allowed the researcher to probe emergent themes or to take advantage of special opportunities[106]. In addition, the questions were not asked in the exact same order each time. This is because the interviewees were allowed to reflect upon issues that they thought were important.

The interviews were done in Finnish, the mother tongue of the interviewees. The discussion was recorded and the texts of from the interviews were written in full text. Furthermore, the text was sent to the companies to be confirmed and the unclear points were clarified with the company

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[106] Eisenhardt, 1989, p. 539

representative after the interview. Both interviewers made notes and the interviewee was asked to use drawings in explanations. These drawings were redrawn afterwards. As Glesne and Peshkin[107] note, when data analysis is done simultaneously with data collection, it enables focusing and shaping the study as it proceeds. Therefore, the interviews were sequenced in such a way that there would be no more than one interview per day. As a result, there was time to process the data and in some case time to begin an initial analysis of it

Data Analysis

Glesne and Peshkin[108] describe the data analysis in the following way:

> *"Data analysis involves organising what you have seen, heard and read so that you can make sense*

They say that in order to create explanations, pose hypotheses or to develop theories there is a need to e.g. categorise, search for patterns and interpret the data being collected. The interview text was analysed in depth with a analysis matrix presented in appendices. The reason is that as Glesne and Peshkin[109] say, probably the most frequently used technique to organise text is organisation by themes or topics.

In filling in the issues in the framework the IMG-databases and WWW-site of the company was also used. Each company was formed as an individual case and additionally each item of the analysis matrix was combined with the other companies' similar items. This formed two reports the company level and the issue level reports of the cases. Finally, the research items were then discussed with the other members of the research group and general agreement was found about the situation in both the company and the item.

For the purpose of this research, the interview texts were once more analysed by the researcher. Each point related to networking or internationalisation was reflected to the earlier analysis. The text quotes were structured according to the research framework and a picture of the two issues was formed. This was then written into the actual discussion chapter. The choice of quotations was based on the criteria of relevancy to the context, explanatory power, and the ability of the quotation to illustrate the point.

Two In-Depth Case Analyses

Selection of the Case Companies

To form a holistic picture of growing industry's problems, two case studies were carried out. New media productions are mostly based on two variables, technology and design (see chapter 2.1.3, p.10). In internationalisation process the motivations and experience of the personnel is also a important factor.

In the selection process there were several possibilities to choose from. The basic idea was to carry out a minimum of two case studies. The chosen sampling method was once more purposeful sampling. Patton[110] point out that purposeful sampling is "*selection of information-rich cases for in-depth study*". The companies to be chosen should fulfil the several conditions and thus be information-rich for the analysis.

- Shown a clear interest for internationalisation

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[107] Glesne and Peshkin 1992, p. 127

[108] Glesne and Peshkin 1992, p.127

[109] Glesne and Peshkin 1992, p, 164

[110] Patton, 1990, p. 182

- Have a high level innovation potential either in technology or design, potential to focus on a niche market
- Be in the early phase of internationalisation having completed some trials for it
- Having relationships with at least one multinational customer
- Be still independent of outside investors and IT/media conglomerates

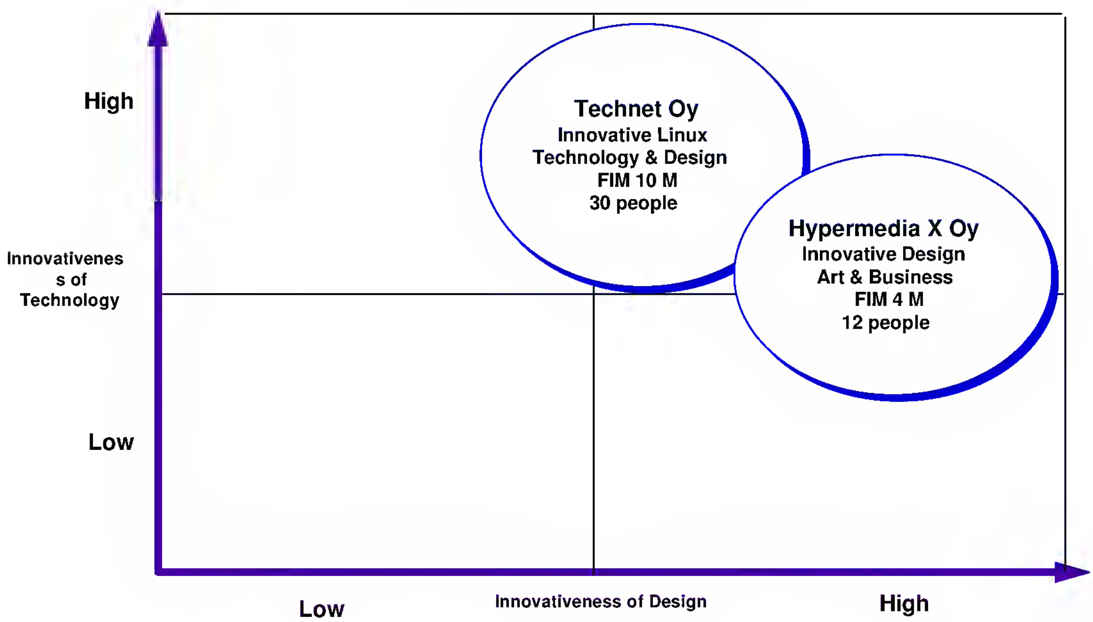
The databases were analysed carefully to find companies that would meet the criteria. There were several potentially interesting companies to be chosen from. The main criteria was set to be innovation capability of the company. In this both design and technology aspects were taken into consideration. As one interesting topic to be analysed was also the niche strategy. According to it, a Finnish company would have to find its expertise in a narrow field, rather than focusing on competing in general production capacity issues. This had its impact on the selection technology companies. The case company would have to be investing a future technology, though internet related. Special interest of the research was also in companies in the early growth stages, they would have the potential of focusing to certain niches.

Two companies were finally chosen. First, TechNet Oy (name modified) has been developing technologically interesting Linux-architecture based. In addition, the company has had several multinational clients and is heavily focusing on international markets. It has participated in internationalisation programs of the Finnish government and aims to expand its operations to international markets in the next few years. Its personnel is committed to internationalisation, but the company lacks of financial resources for its expansion. At the moment of the case writing it is negotiating with potential financiers.

Second, Hypermedia X (name modified) has been during the last few years developing software solutions to streaming media environments as well as basing its solutions on Java-applications. It has served its customers in with innovative design. Hypermedia X has also a few multinational clients and additionally it has an interesting relationship network to cultural sector customers throughout Europe. At the moment, the company is struggling in early growth stages, the company has multiplied its personnel and turnover during the last year and now expand to international markets. As TechNet Oy, also Hypermedia X was at the moment of the case writing it is negotiating with potential external financiers for its internationalisation efforts.

Figure 17 illustrates the selection of the case companies. The two axis, technological and design innovativeness were evaluated on subjective basis. Nevertheless, the companies represent the leading edge of Finnish interactive media in many terms.

Figure 17: Selection of the Case Companies



Case Building Process

The two cases were build upon multiple interviews and on active participation in some negotiations. Though actively participating, the researcher was all the time in observing position and not forming or influencing the processes.

At TechNet Oy the two interview sessions were held with the two of the company's board members. The first interview was about the customer relationships and the second about internationalisation plans. In addition, the author participated in the initial negotiations with a foreign partner and to the customer satisfaction analysis feedback session from another research group contracted by TechNet Oy. All the interviews were recorded and the interview memos were accepted by TechNet representatives. The field work was carried out between March to August 1999. The researcher was also allowed to analyse TechNet's written business plans and strategies.

At Hypermedia X Oy the researcher participated as an outside observer in the international negotiations in Belgium, Switzerland and Germany. The parties that took part in the negotiations were the Hypermedia X's board members, managing directors of the foreign potential partners and interested financiers. The CEO of HMX Oy was interviewed three times. Themes in these interviews were internationalisation plans, personnel strategies and financing international operations. HMX allowed the researcher to use confidential internal materials. In addition, one interview was held with HMX main customer's representative. The field work was carried out during May to September 1999. There were several memos written on the discussions with the company and the content of these was always confirmed by a HMX representative.

The actual case analyses were formed on the basis of the material collected. The methods used in this included SWOT and risk analyses. Networking and internationalisation issues were considered to be the most important points and thus models of implemented international productions were formed. The analysis was then written.

The information received from the companies was very heterogeneous and did not follow the same pattern, though the researcher aimed to lead the discussion in that manner. Thus also, the case descriptions and analyses presented in chapter nine differ by their structure from each other. The researcher assumes that the different understanding of the interview and case study questions from the interviewees and the material that was analysed, originates to the different entrepreneur background of the two companies.

6.3 Reliability and Validity of Findings

Purpose of the Quality Analysis

The focus in this validity and reliability analysis is to discuss the two practical standards, validity and reliability, that could help at judging the quality of the study[111]. Patton[112] states about the nature of qualitative inquiry: "*The validity and reliability of qualitative data depend to a great extent on the methodological skill, sensitivity, and integrity of the researcher.*" He continues that the credibility of the researcher depends on training, experience, track record, status, and presentation of self. On the other hand, Miles & Hubermann[113] focus on improved and more rigorous techniques for *data gathering and analysis and keep them as the best way* to enhance credibility and acceptance of the study..

Validity can be divided into internal and external validity. *Internal validity* relates to true value of the study – *Do the findings of the study make sense?* and *Are they credible?* Moreover, internal validity refers to the credibility, authenticity, context-richness and meaningfulness of the study as well as how convincing the study is for the reader. Also it includes the trustworthiness of the researcher,

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111 Miles & Hubermann 1994, p. 277

112 Patton, 1990, p. 11 & 461

113 Miles & Hubermann 1994, p. 278-279

his/her experience in the field of research. *External validity*, on the other hand, refers to transferability and suitability of the study to other contexts. It answers the question how far the conclusions of the study can be generalised..[114]

Reliability, on the other hand, refers to dependability and audibility of the study. The underlying question here is whether the empirical process is consistent, reasonably stable over time and across researchers and methods. It is also possible to talk about "quality control" and ask whether the research questions were clear, and the features of the study design compatible with the research questions? .[115]

Methods of Ensuring Quality in This Research

As presented in the beginning of this main chapter, the triangulation of methods was used to assure the quality of the findings. The chose of multiple method increased both the validity and reliability of the research. Each of the quality issues will be discussed here below:

- *Internal validity*: the data used in the research was very accurate. The databases that were collected for the purpose of the field survey are the most detailed source of information about the phenomena in Finland. They also have a time-series of two successive survey and enabled thus comparison of the research findings to the earlier work. The interviews and case studies covered most of the leading Finnish new media companies and thus this material was also very current and precise. The author of this research has analysed the industry for nearly two years and had a very through understanding of the phenomena before already before the project. Therefore, the research can be seen as internally valid.
- *External validity*: the generalisations made on the basis of the data offer a holistic approach to the new media industry. The internationalisation pattern was not analysed in detail and this limits the possibility to make absolute generalisations. Yet, there was found a common agreement on the most of the presented findings. There is no more accurate data available and the triangulation in the research design increased also the external validity of the analysis. Thus, the *research can be seen externally valid with some reservations*. Yet, some more detailed analysis must be carried out about the network structure and dynamics.
- *Reliability*: the data collection and analysis was carried out with very careful and thorough methods. The interviews were recorded, written and notes were taken by both of the interviewers. The survey data was analysed by multiple persons and analyses were discussed within the group. The case analyses were also documented and the researcher was able to use also internal classified material of the company. All the unclear matters were confirmed from the research objects. The findings from multiple data sources were very similar which further increased the reliability of findings. In addition, the companies did not have any contractual arrangements with the researcher and this further increased accuracy. *The research can thus be found as sufficiently reliable for making the conclusions.*

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[114] .Miles & Hubermann 1994, p. 278-279

[115] .Miles & Hubermann 1994, p. 278-279

PART IV: Empirical Findings

7. New Media Industry in Finland

This chapter summarises of the main findings from the most recent studies of the new media markets in Finland as well as presents ideas derived from the industry survey and general interviews. In the chapter, there are several charts that were presented in earlier publications of the Interactive Media Group. Yet, several totally new tables and charts based on the broad research data are also shown and some already published ones were further developed.

7.1 Positioning New Media in the IT Industry

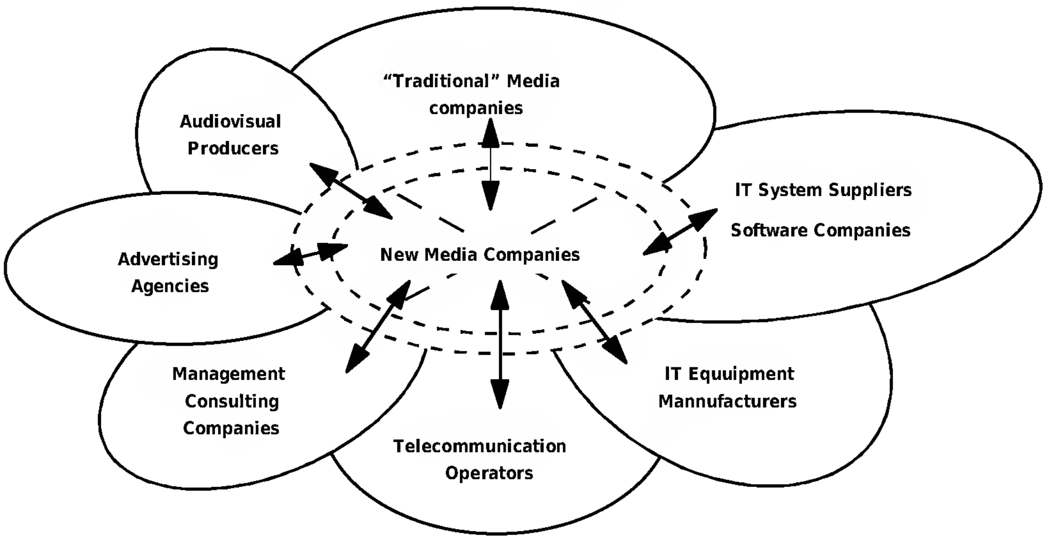
Industry Positioning

To understand the strategic position that new media solutions are at the moment for any Information technology related industry, new media industry has to be positioned. In addition to "pure" new media companies, the activities can be found at least in the following industries:

- Traditional media houses
- IT software and system manufacturers
- IT hardware producers
- Telecommunication operators
- Management consulting
- Advertising agencies
- Audio-visual production companies

Boundaries between different industries are getting more and more blurry. Figure 18 presents the strategic position of new media industry. It is important to notice boundary crossing is happening is two directions: the new media companies are searching their role in among the traditional companies, while the traditional players are starting to offer new media services. This situation is very dynamic and involves interesting alliances between different parties.

Figure 18: New Media Industry and Related Industries



Source: modified from Kuokkanen & al. 1999. Uusmediatoimiala Suomessa 1999. G-Print. p. 16

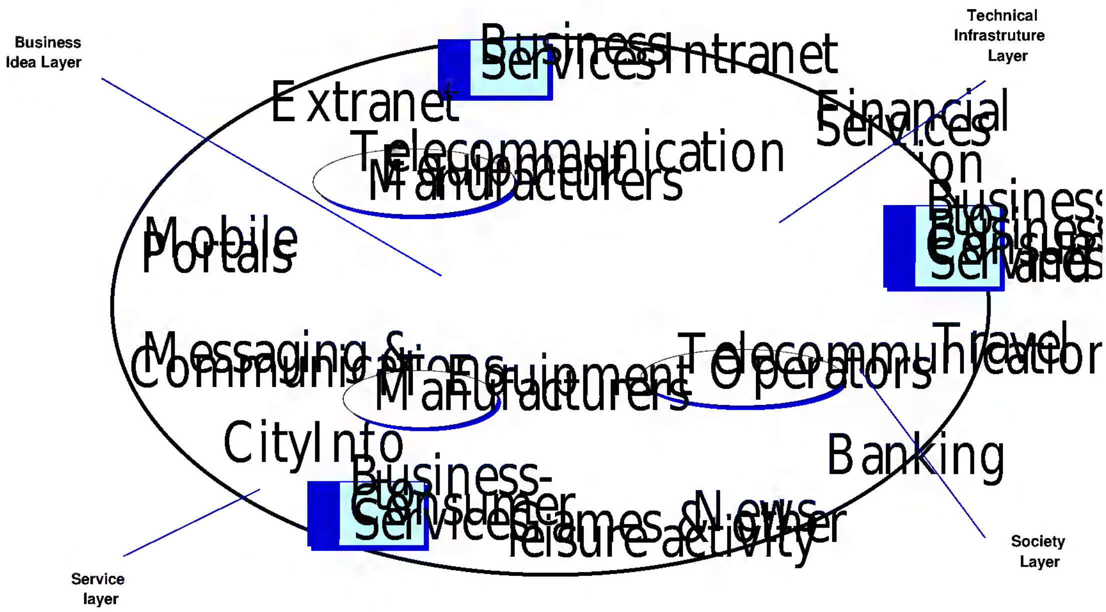
Complex Value and Production Networks

It is beneficial to look into the dynamics of the production networks in more detail. The research and development as well as production implementation around new internet-based business ideas can be very complex. They involve very differently sized actors. The idea for a new service to be offered in the networks, either in wired or wireless world, is often invented in a small entrepreneurial company, often in a start-up company. To develop its business idea to the market, it has to able to discuss and work in close relationships with large telecommunications operators, equipment manufacturers and IT equipment manufacturers, such as Nokia, IBM, Hewlett-Packard or Sonera, just to mention a few operating at the Finnish markets.

Frey & al.[116] have developed a framework to understand the new alliance structure at the mobile internet service and application development. In their model they have four layers: idea layer, technical infrastructure layer, society layer and service layer. Their model is presented in Figure 19.

The model is very similar the concept of "the value web" as presented by in the European [117] -report. Still, that framework will not be discussed in this research due to its complexity and very holistic approach. For the deeper understanding, it is recommended to include it into further studies.

Figure 19: Example of Production Network in Mobile Internet Business Development



Source: modified from Frey & al, 1999

In the core is the actual business idea. It has its marketers and conceptualists. They work in deep co-operation with their financiers, application developers and systems integrators. In the second layer there is the technological infrastructure. In this the business idea developers co-operate with telecoms and equipment manufacturers. In the third layer there are the governmental bodies and organisation which either control or support the development process. The developers co-operate with all the necessary parties in this layer, too. In the fourth layer, the idea owners work

[116] Frey & al., 1999

[117] European Commission, 1999

with the content owners. This is actual interface that shows to the consumer of the product, whether it be business, business consumer or consumer.

There are several examples of already existing services in the mobile internet environment presented in the figure. These will be have their background both in the present wired internet services and in totally new pure wireless and location-based services. It is very probable that the flexible alliances will become more and more common because of the need for faster product development and shorter life cycles of products in the IT environment. The presented layered network models gives a brief insight to the development requirements. Yet, it is to noted that the model is preliminary and needs to be developed to describe each service in more detail.

7.2 Turbulent Technological Environment

The main megatrends that are transforming the IT, telecommunications and media industries include among others[118]:

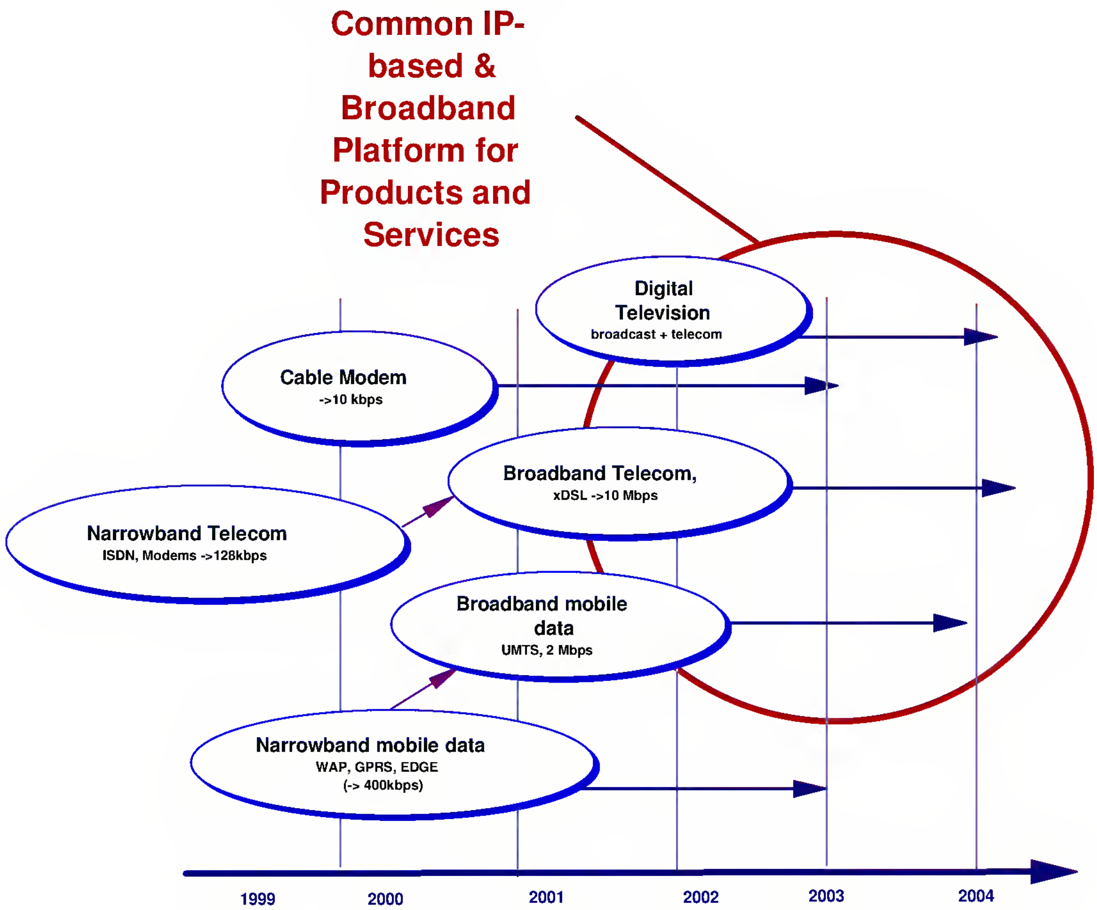
- Deregulation and opening up of world-wide markets
- Accelerating technological development
- Explosive growth of Internet and wireless services
- Convergence between industries

For companies operating in new media service provision the most interesting effect lies in *the opening up of the global broadband IP-based network*. This is about to happen from the beginning of year 2001. In the new service platform there are three main networks/distribution channels for the services: mobile, telecommunication and digital television networks. New media companies have gained experience in creating services for the narrowband networks, i.e. to modem or ISDN-based networks or to stored media, i.e. CD-ROMs and multimedia presentations. The survival question for new media industry lies in the capability to transform the existing skills in multimedia design to the upcoming situation. Furthermore, their competitive advantage lies in the experience in TCP/IP-Network authoring tools and in service concept design.

It is quite clear that there will be room for all the three distribution channels. End-users of multimedia/interactive services will not focus on the access platform, but rather they want to use their preferred services via the network the most convenient for the occasion. New media companies have to notice this in their service planning - the same service has to be accessible from different channels - also with certain limitation from the narrowband terminals. The situation is illustrated the Figure 20.

[118] Topi, 1999

Figure 20: Towards the Common Broadband TCP/IP-based Network



Source: modified from Tenhunen, 1999

In internationalising of operations it is essential to notice that each country will carry its characteristics in infrastructure and media usage. The experiences from mobile handset explosive growth and the pace of technological adaptation here in the Nordic countries may not be repeated to same extent in the rest of Europe. While mobile handset will, with few doubts, become one of the main media in the north, the south European major media may become to be the digital television. Already now European growth rates to digital television are estimated to be as high as 300 000 thousand new users every month and the pace seems to accelerate[119].

In the table below are presented some key figures of the major markets collected from multiple sources. These are all the time subject to change due to the rapid development in the industry. The figures can be used in segmentation of preferred market to international entry.

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[119] Silvo, Finnish Broadcasting Company, YLE, October 1999

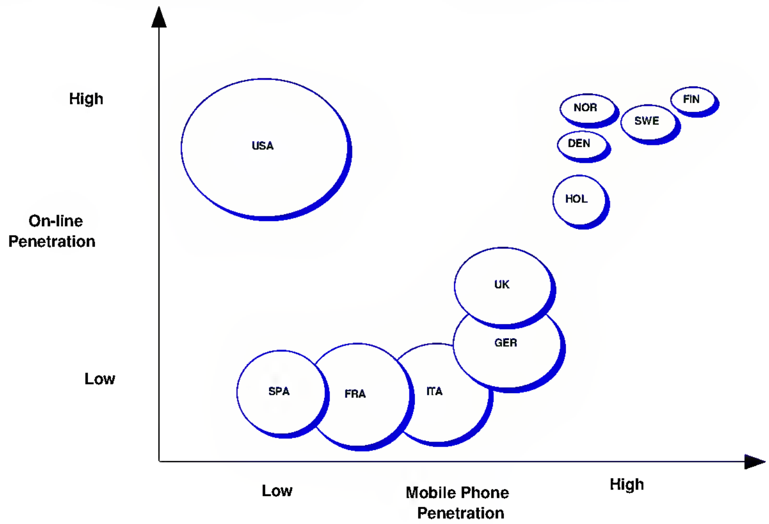
Table 24: Technological Adaptation in Some Key European Markets

	Population	Mobile phone penetration	On-line penetration
Finland	5,1 M	65 %	30 %
Norway	4,1 M	55 %	23 %
Sweden	8,7 M	60 %	28 %
Denmark	5,1 M	54 %	22 %
Netherlands	15 M	33 %	17 %
Germany	82 M	22 %	13 %
The UK	58 M	28 %	15 %
France	61 M	25 %	6 %
Italy	56 M	36 %	5 %
Spain	36 M	20 %	5 %
USA	280 M	20 %	40 %

Source: adapted from Tenhunen, 1999

The presented figures can be used in segmentation for example by using a penetration matrix. In this the most important figures, i.e. mobile phone and on-line penetration, would be used with two dimensions, high and low. The scale of the market is illustrated with object size. It is to noted that the figure presented is not totally the actual market situation. It has to be revised if used in actual business context. Also the situation is changing rapidly and thus the figure has to updated frequently.

Figure 21: Segmenting Geographical Markets for New Media Solutions



The following observations can be created from the figure:

- the Nordic markets are leading both in mobile and on-line penetrations
- the main European markets are much further in adapting to mobile technology than to PC-based on-line technology
- USA is leading the on-line markets, but far behind in mobile penetration

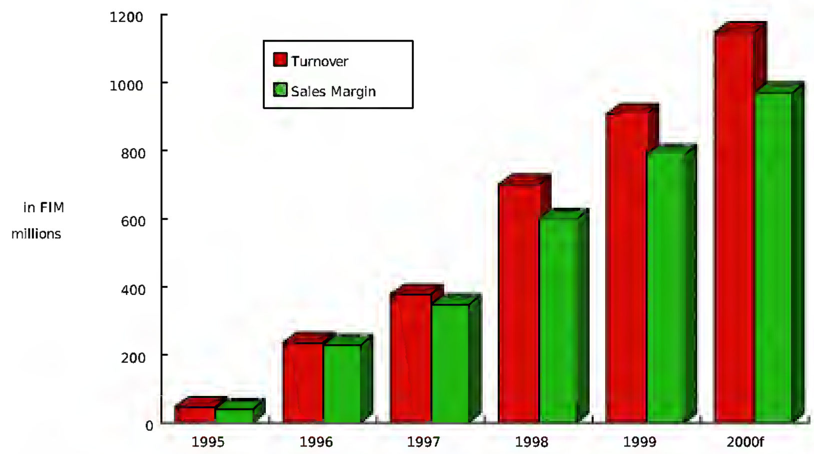
These observations have a great importance for the planning of international operations.

7.3 New Media Markets in Finland

7.3.1 Market Size

The new media industry was born in the 1990s to Finland. The emergence of the Internet-based services in the second half of the decade created a large number of new companies . In the survey[120] some 300 companies were found to operate in the industry and the total turnover was estimated to reach 900 million in 1999 and to bypass one billion FIM during 2000. Figure 22 illustrates the growth of the industry from 1995 to estimated 2000. The figures presented reflect the core activities in the industry (see chapter 1.5 (p.4)

Figure 22: Turnover of the New Media Industry 1995 -2000e



Source: Kuokkanen & al. 1999. Uusmediatoimiala Suomessa 1999. G-Print. Helsinki p. 18.

Furthermore, International Data Corporation has estimated the Finnish market for Internet services, including expert services, administration, maintenance and connection services to total FIM 1,7 billion in 1999. Table 25 summarises their findings.

Table 25: The Finnish Market for Internet Services 1996-2002 (FIM millions)

	1996	1997	1998	1999	2000	2001	2002	Growth 1997-2002
Internet Expert Services	93	253	563	948	1329	1733	2126	53 %
Administration and usability services	8	40	86	142	220	330	462	63%
Support and maintenance services	10	23	42	75	105	147	191	53%
Internet Connection Services	90	230	416	543	699	825	932	29%
Internet Services in Total	201	576	1107	1708	2352	3035	3711	45%
Growth rate		186%	92%	54%	38%	29%	22%	
Pure IN IT Services	111	316	691	1165	1654	2210	2779	54%
Growth rate		184%	119%	69%	42%	34%	26%	

Source: International Data Corporation, Finland, 1998, p.26

120 Kuokkanen & al., 1999

7.3.2 Services and Applications

The main services that the new media companies offer are:

- Internet Consulting
- Internet Application Development
- Internet Integration
- Internet Training

International Data Corporation state in their survey of the Finnish markets[121] that application development as the largest segment with a turnover of FIM 511 million in 1999. In addition to this classification, the market could also be analysed from the product perspective. The main product that new media sector companies deliver include WWW-pages, intranet, electronic commerce (EC), extranet and other solutions. The highest growth is estimated to be in EC-solutions, while the plain old WWW-pages market remain quite stable in the following few years. The EC segment is estimated to reach FIM 303 millions in 1999. The spread between key services and applications are presented in the tables below.

Table 26: Internet Expert Services by Service in Finland 1996-2002, FIM millions

	1996	1997	1998	1999	2000	2001	2002	Growth 97 -02
IN Consulting	26	56	115	189	236	274	296	40 %
IN Application Development	54	147	313	511	720	955	1191	52 %
IN Integration	6	38	105	195	300	418	543	71 %
IN Training	6	13	30	54	72	87	96	48 %
IN Services TOTAL	93	253	563	948	1329	1733	2126	53 %

Source: International Data Corporation, Finland, p. 31

Table 27: Internet Expert Services by Application in Finland 1996 - 2002, FIM millions

	1996	1997	1998	1999	2000	2001	2002
WWW-pages	35	75	130	171	213	243	255
Intranet-Applications	28	72	165	232	272	312	351
E-Commerce applications	12	55	140	303	478	682	892
Other Applications	18	52	128	242	365	497	628
IN Services TOTAL	93	253	563	948	1329	1733	2126
Annual growth rate		172 %	122 %	68 %	40 %	30 %	23 %

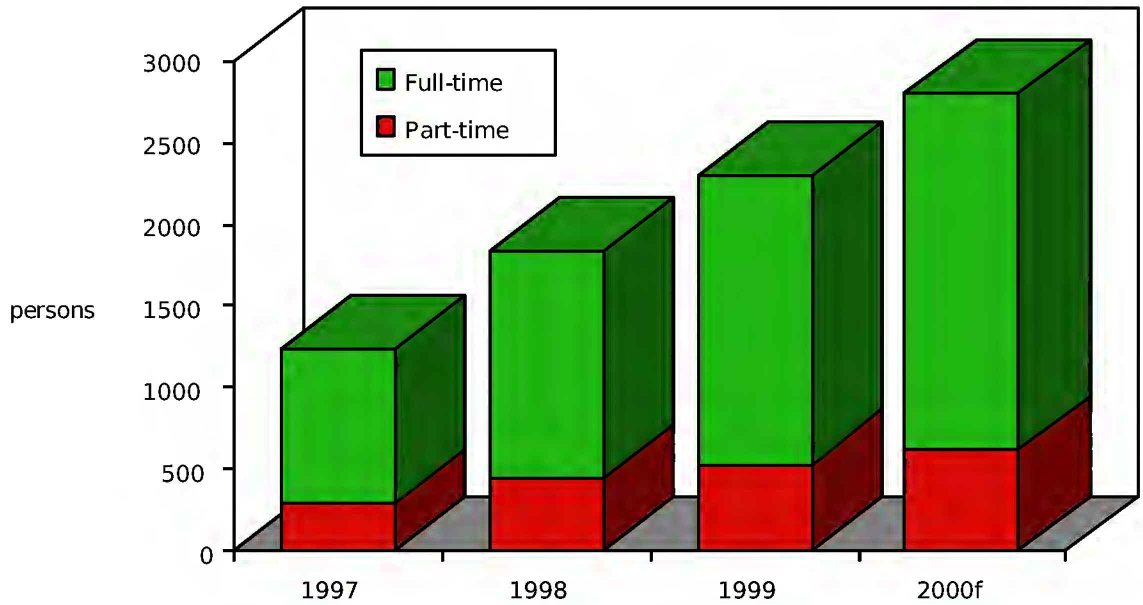
Source: International Data Corporation, 1998, p. 34

[121] International Data Corporation, 1998

7.3.3 New Media Personnel

The new media industry is estimated to employ around 2700 persons by year 2001 (see Figure 23). This estimate is based on the industry survey. It is important to note that the total impact to employment in Finland is much larger. The new media skills are needed in nearly every industry and thus expand the effect. The focus of the research was on the production-oriented new media companies. Thus this larger scale effect was not evaluated. The annual increase in the employment is around 500, and this finding is perfectly in line with the estimates presented in Figure 7 (p.5).

Figure 23: Personnel in the Finnish New Media Industry 1997-2000e

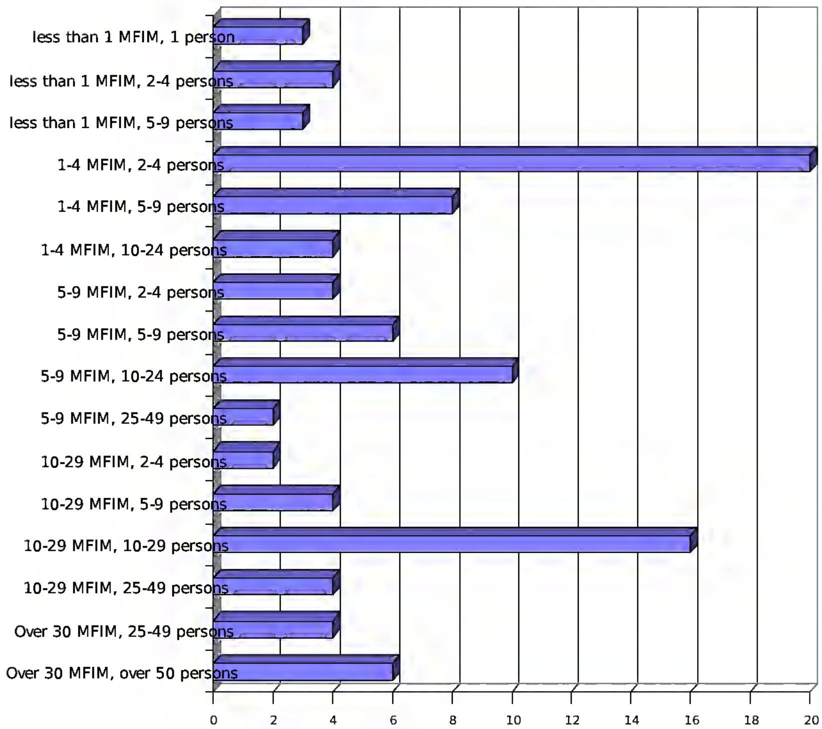


Source. Pelkonen, 1999,. p. 71

In this research the survey data was cross-tabulated with two variable, amount of personnel and size of the turnover. It is to be noticed that new media companies are all very small in scale. This is presented in Figure 24. There were three main classed of companies:

- small company with a turnover from FIM 1-4 million and personnel of 2-4 persons (20 % of the sample) ,
- a medium sized company with turnover of 5-9 millions and 10-24 persons working in the company (10 % of the sample) and
- medium-sized company with turnover from FIM 10-29 million and 10-29 persons working in the company (16 % of the sample).

Figure 24: Personnel vs. Turnover (% of sample, n= 72)



Two arguments arise from the figure above:

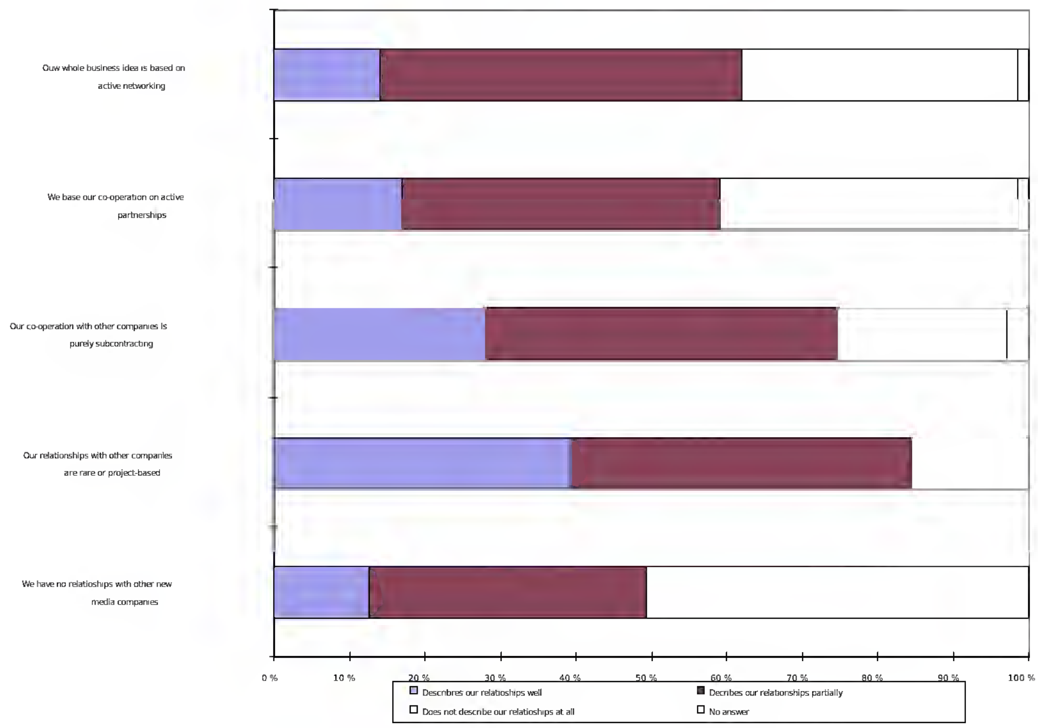
1. *The industry will concentrate around fewer players*. The amount of turnover collected by the largest companies does not yet follow the commonly known 80/20-rule, i.e. 20 % of companies generate 80 % of industry turnover. Thus, there is room for mergers and acquisitions in the Finnish new media industry.

2. *The personal resources are very scarce* in the Finnish new media industry. Small companies are struggling about their survival. Only few are able to generate sufficiently of income to recruit new personnel and skills and still keep the present talents in the companies.

7.4 Co-operation and relationships

In the survey the respondents were asked to evaluate their relationships with other players in the industry. The evaluated aspects were the amount of sub-contracting and respondents opinions about the relationships in general. The most surprising finding was that 48 % of the new media companies informed of not having any relations with other companies in the field. 39 % told their co-operation to be mainly project-related or unplanned. 29 % of the new media companies saw their co-operation to be sub-contracting. Yet, on average the total amount of sub-contracting is still relatively low, only approximately 10-15 % of sales. Furthermore, only 15 % of the companies regarded their business to be based on active relationships management. Figure 25 on the next page summarises the relationships findings.

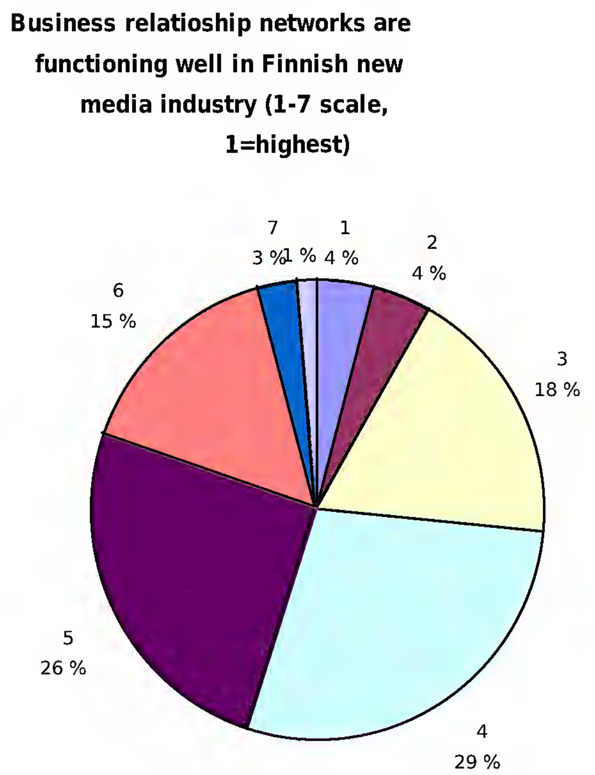
Figure 25: Relationships of the New Media Companies



Source: modified from Kuokkanen & al. 1999, p. 29

In addition the companies were asked to evaluate the functional operationality of network and co-operation with a scale from on to seven. Only four percent of the companies gave the highest grade. Yet, over 50 % gave the grade from 1-4, which indicates that the networks are operating, but there exists a lot of improvement in their functionality. The spread between different opinions is presented in Figure 26

Figure 26: New Media Companies' Opinions about the Functionality of the Business Network



7.5 Adequacy of Resources

The Finnish new media companies were asked to identify the adequacy of their certain key resources. The classed that were analysed included the following: skilled personnel, educational resources, financial resources and customer potential. Skilled personnel was found out to the most needed resource for growth. This finding was also confirmed by another recent study of 56 Finnish multimedia companies. The authors state that :"*The most important problem for business development of multimedia producers is the shortage of skilled personnel*[122]".

In addition, there existed a shortage of financial resources in the markets in 1998. Yet, the recent changes and the increasing interest towards internet-related companies, has increased the possibilities for financing opportunities for new media. Table 28 below summarises the adequacy of the resources as seen by the Finnish New media companies in the research survey.

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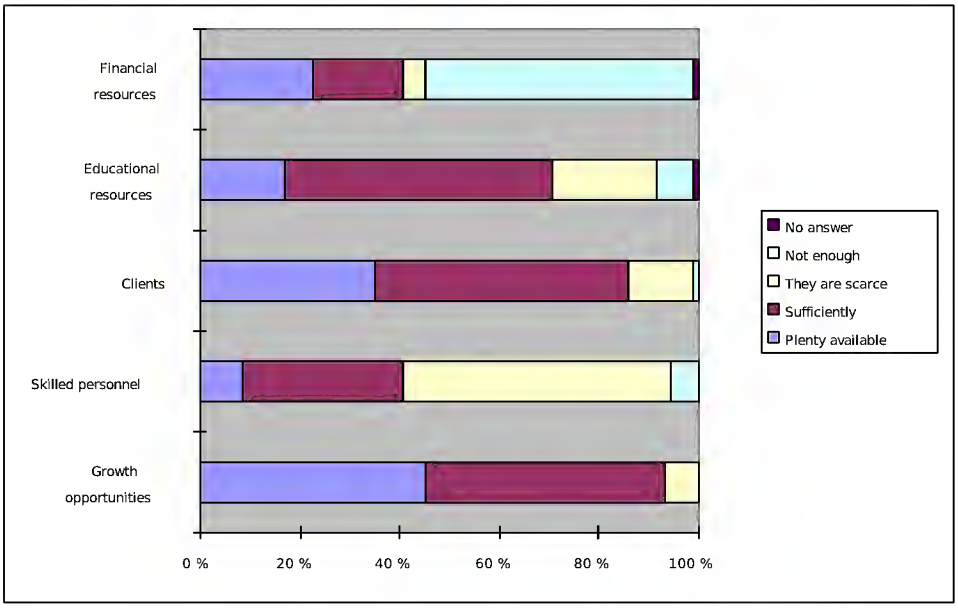
[122] Lepistˆ & al, 1998

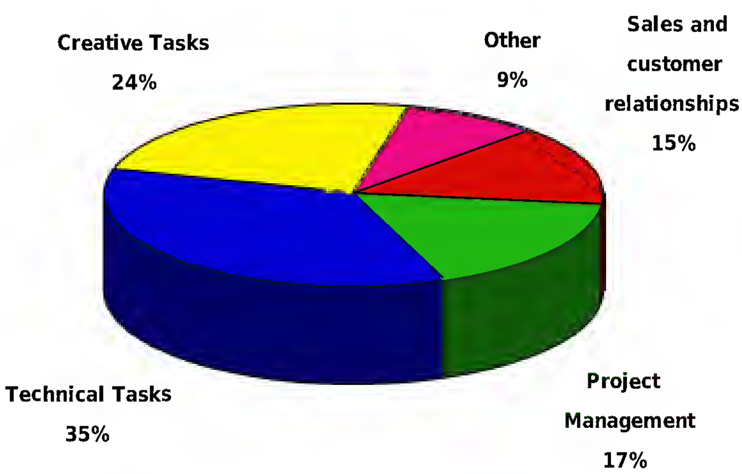
Table 28: The Adequacy of Resource in the Finnish New Media Industry 1999



Source: modified from Kuokkanen & al. 1999., pp. 34-37

The main shortages, finances and personnel could both be analysed in more detail. In this research the main emphasis was on skills of the personnel. The companies were asked to identify the main areas of knowledge that they are lacking of. The total recruitment need for new media personnel was estimated to be 500 people during 1999 and another 500 persons in 2000. The tasks that the recruited persons would work on spread between sales and project management and (1/3), technical tasks (1/3) and creative tasks (1/4). This spread is presented in Figure 27 below. The more detailed skills and resources needed in the industry were discusses in more detailed by Helomaa. This was presented earlier in chapter 2.2 (p. 13).

Figure 27: Recruitment and Tasks in the New Media Industry during 1999-2000



Source. Pelkonen,. 1999,. p. 72

8. Internationalisation of the Finnish New Media Industry

In the survey and during the general interviews the target companies were asked to evaluate of their position in the internationalisation development. The most important finding was the companies saw internationalisation as the key source for growth in the near future. Yet, several obstacles were also found.

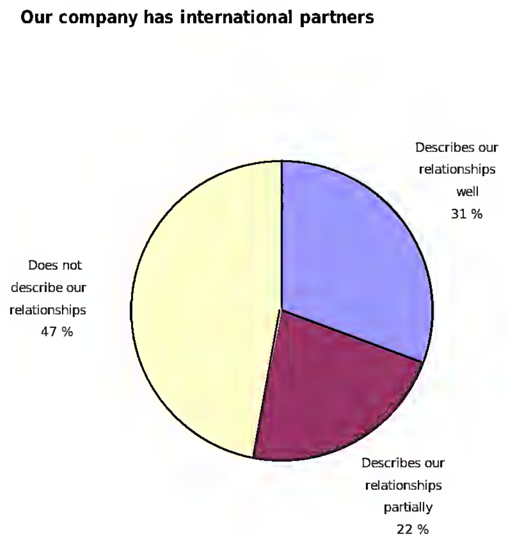
8.1 Findings from the Industry Survey

As the first groups of findings about the new media companies' internationalisation situation, the main findings from the industry survey are presented.

8.1.1 Involvement Level in International Operations

Thirty-one percent of the companies of Finnish new media companies reported to co-operate with a foreign partner (see Figure 28). In addition, twenty-two percent of companies argued to have international relationships to some extent. Thus, it can be argued that in the end of 1998, over 50 % of Finnish new media companies were involved with some sort of co-operation over national borders.

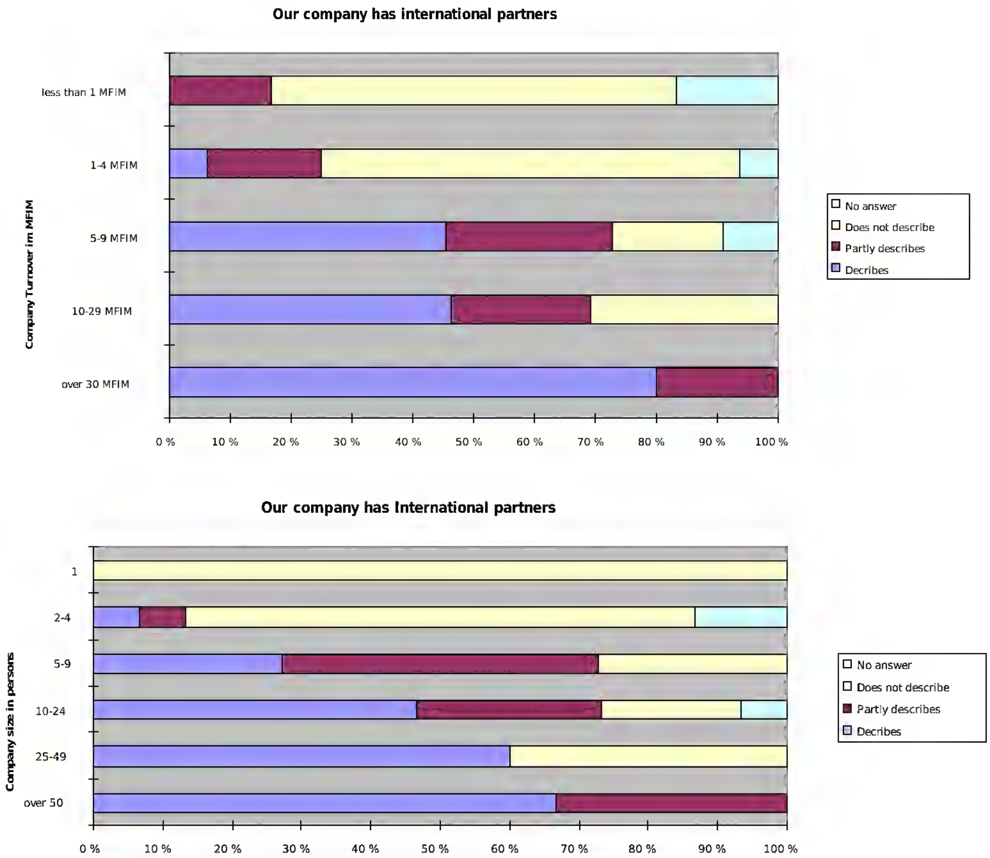
Figure 28: Involvement with International Relationships



Source: modified from Kuokkanen & al, 1999, p. 39

The companies most involved with international relationships were among the largest companies. All the companies with over 30 million in turnover and over 50 persons working were already involved in international operations. The one-man-companies with less than one million FIM in turnover were not yet internationalising. It can be argued that the internationalisation impact is a clear growth strategy for companies. The domestic market for new media product does not meet the growth needs of the companies and thus they seek for international expansion. The increase in international involvement can be seen clearly from Figure 29.

Figure 29: Company size and International Involvement



The new media companies believed that internationalisation will take place very soon. 60 % believed that several Finnish new media companies will expand their operations abroad in the next two years.

8.1.2 Internationalisation Channels and Strategies

The companies are considering multiple strategies for their internationalisation. In the final report of a Finnish governmental internationalisation program, Pajula[123] states that the strategies and business planning processes of the Finnish new media are one of the main shortages. The companies do have written business plans and they lack of personnel to carry out planning. Thus, the strategies are very heterogeneous. Pajula listed them as follows:

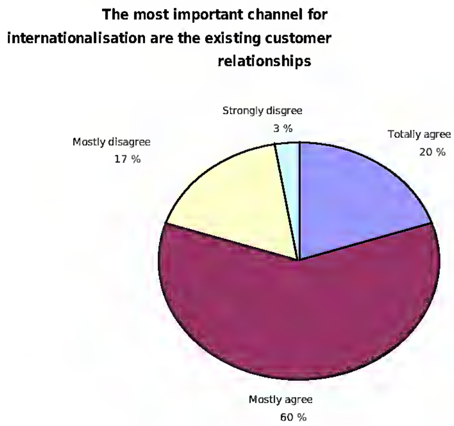
- Fast growth with the support of external financiers
- Fast growth via networking strategies
- Acquisition of a local company in foreign country
- Greenfield investments to a foreign country
- Going with "luck", i.e. no planning, just 'ad hoc' activities
- Internationalisation with customer's operations

In the filed survey, the most important operation mode was believed to be internationalisation with client's operations. Nearly 80 % of the companies confirmed this argument (see Figure 30). Yet, it is to be noted that there are not too many international customers for new media companies in Finland that enable internationalisation. Thus new media companies have also to consider

[123] Pajula, 1999 in Jokinen, 1999, p.52

alternative solutions, such as direct service export, partnership agreements or forming of own subsidiaries by greenfield investments or by acquisitions.

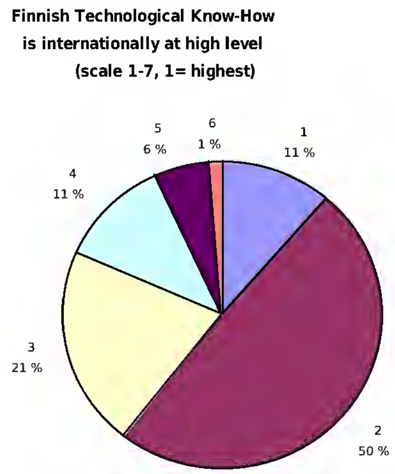
Figure 30: International Growth with Existing Customer Relationships

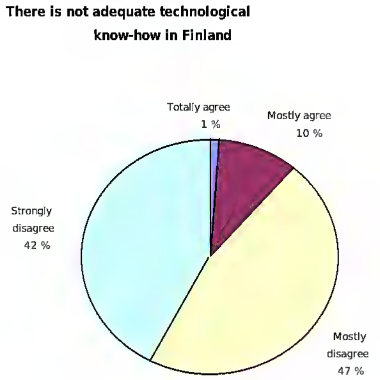


8.1.3 Skills needed in internationalisation

Two dimensions of skills needed in internationalisation were estimated: technology and content creation skills. Companies were very confident about their technological know-how. With a scale from one to seven, 61 % of the companies gave Finnish knowledge a grade 1 or 2 . In addition, nearly 90 % of new media companies believed their technological know-how level to be at an adequate level. These findings are presented in Figure 31

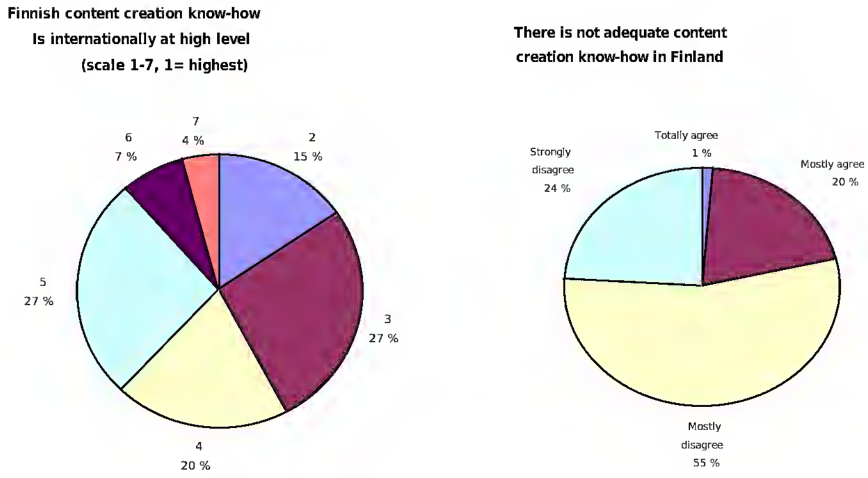
Figure 31: Technological Know-How





The content creations skills were not seen as high as technological skills. Over 60 % of the companies gave the knowledge a grade 4 to 7, while no company estimated it to worth the highest grade. Furthermore, 75 % percent of Finnish companies agreed on that there is a clear knowledge shortage in the content creation skills. This must be seem a threatening factor for the competitive position of the industry. Creation of innovative and attractive content is one of the key issues in the changing new media environment - the Finnish companies seem to have problems of creating sufficiently of them. The findings of the survey on this are presented in Figure 31.

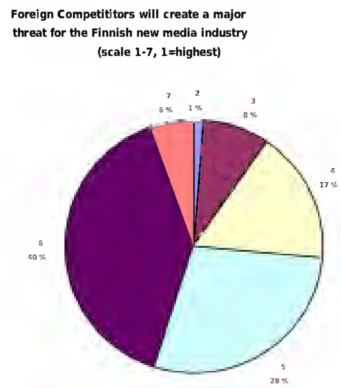
Figure 32: Content Creation Know-How



8.1.4 Threat of Foreign Competition

The new media companies had mixed feelings about the entrance of foreign competitors to domestic markets. Yet, they were not seen as a major threat to the Finnish industry. When asked to evaluate the threat that the foreign companies could form with 1-7 scale, only ten percent estimated the threat to carry a value higher than 3. In addition, forty-six percent gave a grade six or seven. Thus the threat was not considered to be a major one. Figure 33 summarises the opinions of the companies on this.

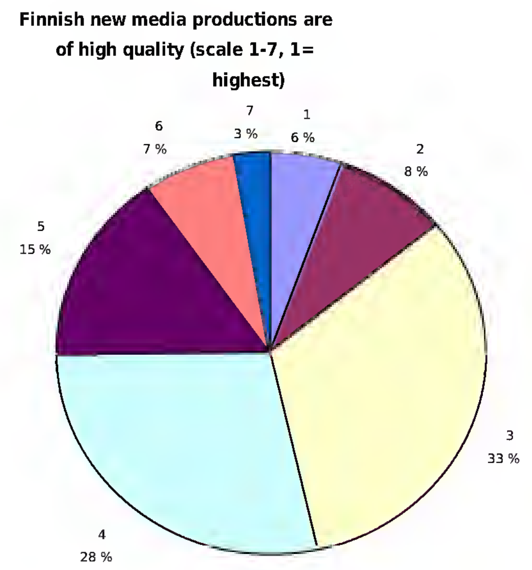
Figure 33: The Threat of Foreign Competitors

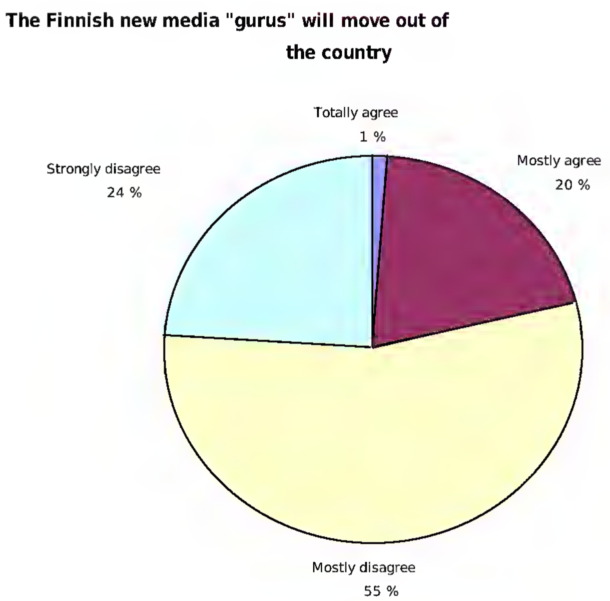


There can be several reasons for the self-confidence of the Finnish companies. In the survey, the most explanatory reasons were estimated to be in the perception of high quality and in the commitment of personnel to Finland. The companies trust on the excellence of their work and on the skills of their personnel.

The companies were asked to evaluate the quality of Finnish new media production in the international context with 1-7 scale. Quality was evaluated to be in a relatively high level. 47 % of the companies gave at 1-7 scale an grade over 3 and only 13 % saw the grade to be below 6. In addition, the companies estimated the willingness of their main production force - personnel - to stay in Finland. Only 21 present agreed in to the argument that skilled personnel would move out from Finland, while 24 % strongly opposed the argument.

Figure 34: Reasons for Finnish New Media Industry's self-confidence





8.2 Internationalisation and Networks in the Twelve Interviewed Companies

This chapter illustrates the situation for internationalisation in the 12 companies that were interviewed with general interviews. The main focus is to find the key elements of new media internationalisation pattern and group the companies according to their strategies.

8.2.1 Six Company Groups

The companies could be classified into five groups according to their internationalisation strategy. These are:

- *Global actors*: a global new media-focused company operating in also Finland. These companies are often listed in an international stock market and have substantial outside investors. They seek for growth by expanding to all the main global markets. These are very much similar to "born globals" as presented in chapter 4.3.3 (p.45).
- *Active growth seekers*: a Finnish company expanding rapidly to international markets. There are only few new media companies in Finland that can be classified to this class. These companies have set their goals to operate in multiple markets and investors have also set their growth targets for the company. Active growth seekers are often looking for stock exchange listing. These are either "international among others" or "late starters" (see chapter 4.3.2, p.39)
- *Internationalisation trialists*: a local company having plans and trialing first international operations. These companies are most often privately held, maybe some outside investors have just joined to support the internationalisation activities. The company possesses interesting intellectual properties and aims to expand its operations to foreign markets. Trialists are involved in several internationalisation programs and have some international customers to start their operations on. These companies are also either "international among others" or "late starters".
- *Inward-internationalisators*: a Finnish or foreign company serving Finnish or MNC customers in Finnish markets, but exchanging international knowledge through the units belonging to the same group of companies or the same chain. The Finnish company may have been acquired by a foreign actor. Inwarders belong often to advertising agency chains and also often localise international productions to Finnish markets. In addition, the services offered are commonly more holistic communication solutions, i.e. including also traditional media elements. The companies belong to "international among others" or "late starter" groups.
- *"Stand-By" -companies*: a Finnish new media company of preparing itself to international activities, but not yet reacting with any operation. These companies are aware of the situation happening in the international markets, but do not, due to lack of resources or strategical reasons do not yet react to the demand. They may have internationally competitive know-how and skills, but the companies are not actively seeking markets for it. When or if these companies start their international operations they will be in "late starter" position.
- *Locally focused companies*: a local new media company serving and focusing on local customers. These companies are either very small and work mainly as sub-contractors for other new media companies or medium sized and serve only Finnish companies and seek growth through them. They may have plans for international markets, but the companies do not see them to realised in the near future.

The interviewed companies were analysed with a very thorough matrix. This can be found in appendices. Furthermore, the internationalisation patterns of the companies were analysed even in more detail. Table 29 in the following pages presents the internationalisation characteristics of each company as well as the attitude toward business networks. Each topic will be analysed in the chapters after the tables and there will also be several direct quotes from the interviews.

Table 29: Internationalisation Patterns of the Twelve Interviewed Companies

	Global Actors	Active Growth seekers		Internationalisation Trialists	
Company	**G1**	**M1**	**L1**	**IT2**	**I2**
Internationalisation strategy	• Focusing to serve its multinational and local clients at all the required locations	• Serving its main customers where needed • Forming of own subsidiaries at the most important markets • Nordic partnerships	• To serve customers in the preferred locations • By expanding through existing customer relationships	• Active partner search • Through customers and projects	• Through existing customer relationships • By forming international relationships • By making services as products • By software licensing
Operation modes	• Own subsidiaries in 14 countries • Partnerships in R&D & certain productions	• Through existing customers • Own subsidiaries • Partnership agreements • International subcontracting	• Own subsidiaries • Joint ventures • International subcontracting • Software licensing	• Pilot projects • Partnerships	• Partnerships • International subcontracting • Own subsidiary in the later stages
Markets	• Global • Finnish unit: Finnish customers + MNCs	• EU region at the moment	• South America • EU Region • South-East Asia	• EU region	• EU Region • USA
Resource shortage in internationalisation	• Skills are obtained through the international network	• Skilled personnel • International customers	• Skilled technology personnel	• Business strategy skills	• Financial resources limited
Finance for operations	• Listed company	• External financiers • Finance from the main investor (a media company) • Seeks for stock listing by 2001	• Listed company	• Outside investors • Strategical partners • Governmental programs	• External investors • Own resources • Governmental programs • Active seek for new sources
Networks and the company	• Highly international company • Well aware of relationships in inward-outward context • Focuses on customer relationship • Competence development inside the group	• Focusing on long-term customer relationships • In R&D forming partners with IT equipment manufacturers	• Contacts obtained through international customers	• Basing its operations on networking • people in the network of operations • Co-operation within the IT cluster, also internationally	• Basing international operations on strong personal ties -> large contact networked exists • Networking on R&D -> Linux society

Internationalisation situation	• Internatio-nal among others / born global	• Internatio-nal among others / late starter	• International among others / late starter	• International among others / late starter	• International among others / late starter

Table 29 continues

	Stand-By Companies		**Inward Internationalisation**	
Company	**M3**	**M2**	**AD1**	**AD2**
Internationalisation strategy	• Serving its main customers where needed • The value-added for international operations is crucial - criticality toward international operations essential	• Through exporting products and concepts • Through the main owner's operations	• Part of an international ad agency chain with operations in 12 countries-> knowledge is exported through this chain	• Part of international ad agency chain -> obtains information and customers through it • Serves local and MNC customers in Finland
Operation modes	• Through existing customers • Partnerships • International subcontracting	• Through the main owner's operations • Through existing customers • Direct product export, if possible	• Serves local customers • International contacts and knowledge transfer via existing units inside chain	• Serving Finnish companies • Partnership agreements in the future
Markets	• EU region	• EU region	• Focuses on Finnish customers	• Focuses on Finnish customers
Resource shortage in internationalisation	• International customers	• Not discussed	• Skills are obtained through the international network	• Not discussed
Finance for operations	• Internal and external sources	• Internal and external sources (a media company)	• Internal finance	• If needed, internal finance
Networks and the company	• Company is serving its customers on long-term basis • Aims to serve its customers where needed	• Aims to create long term customer relationships • Active participation to conferences and seminars	• Well functioning relationships inside the group • Customers are served with all the communications needs in the chain	• Well functioning relationships inside the group
Internationalisation situation	• Late Starter	• Late Starter	• International among others (with local focus)	• International among others (with local focus)

Table 29 continues

	Locally Focused Companies		
Company	**IT1**	**I2**	**M4**
Internationalisation strategy	• No strategy, focusing on serving local customers • "To wait, be aware and follow"	• No strategy, focusing on serving local customers • "To wait, be aware and follow"	• Serves customers in Finland • Through exporting products and concepts
Operation modes	• If starts to operate internationally, the preferred modes partnership or subcontracting	• If starts to operate internationally, the preferred modes partnership or subcontracting • Serving existing clients	• Growth through existing customers • Direct product export, if possible
Markets	• The most influential is Sweden	• EU Region	• Not discussed
Resource shortage in internationalisation	• Not discussed	• Not discussed	• Not discussed
Finance for operations	• If needed, own resources or external finance	• External finance	• From internal sources (a large publisher)
Networks and the company	• Finnish markets are adequate to operate in, no hurry for international expansion • Profit generation in Finland is sufficient	• High focus on own R&D, development co-operation with technological partners	• Aims for long-term relationships, at the moment has been more project-based operations
Internationalisation situation	• Late starter	• Late starter	• No situation/ Late Starter

8.2.2 Situation in Internationalisation

The companies were first asked to describe the situation of the Finnish companies in their internationalisation. They had very mixed feelings about the success of Finnish companies. Technological know-how was said to be of high quality, but there was a clear notion of skill shortage in concept commercialisation. Special attention was found to be in the success stories at the near-by market, Sweden. As one representative claimed:

> "We are not good in marketing our new media concepts. Let's take a example the domestic e-commerce sites. They are great in their technological infrastructure, they may even be appealing in their design. Yet, has there been similar marketing efforts comparable to those made in Sweden and by Swedish companies in Finland? Swedes make our sites look like brand-new supermarkets build up to middle of our forests. I wonder, where is our courage to take risks and promote ourselves?"

Another representative had also noticed the same, but was more positive about the future. He believed that our technological investments and know-how may bring us to better position in the new media environments. He argued that:

> "In Sweden, market far behind Finland still about two years ago, new media industry had a turnover of FIM 7 billion in 1998. We should not feel to sorry about ourselves but analyse thoroughly why the Swedes are so much more successful. Yet, we should remember that this kind of "slow and conservative" approach that we have in Finland may become more fruitful in the long run."

Third company representative had also noted the strong position of Sweden in the new media development. He encouraged the Finnish companies to be aware own capabilities and to actively prepare ourselves to international markets. He was aware of us selling our knowledge with a too low price. He noted that:

> "There are organisations in the west - yes, more west than the city of Rauma -that eagerly want to become share owners in the Finnish new media companies or form their own units. It is of our duty, to decide whether we benefit from this or not. Let us not tie our hands to any possibility offered, let's rather be aware of the options available and react when needed. We have skills in this country, why don't we get them in use!"

The companies have realised that the Finnish infrastructure is one of the most advanced in the world. This may also become problematic to some companies because of the solutions developed here are not ready to used in other markets due to them being in different technological adaptation stage. The companies noted this to be true both in the distribution platforms and in general interest of the Finnish organisations. The following two quotes illustrate the situation

> "The technological skills different between countries. If we would like, say, to make promotion in central Europe, the most beneficial method would be CD-ROMs, while in the USA and Scandinavia, WWW is the ultimate method."

> "Here in Finland, we are still too much interested about the network transfer capacity, functionality, about future media phones or about digital television than about the actual content to be used through the terminals or networks. Both governmental and corporate investments into new media content are marginal in comparison to traditional media."

There were some very sceptical beliefs about internationalisation, too. The growth of the industry was seen to be based on irrational expectations mainly given by financiers profit targets. The two quotes below illustrate these suspicious opinions.

> "Internationalisation is most often based on growth and market share expectations dominated by external financiers. The companies seek for growth for growths sake only. Do these companies remember to follow their profitability? - we are sceptical about that."

> "The future growth expectations are incredible, even outrageous. The bubble must break someday. There is so much air in the stock values of the international companies. Yet, if the expectations will become reality, there is room for many new large and international players."

To conclude, the companies very confused about the impact of international markets. Yet, a common agreement was found to prevail about its importance. Internationalisation is must for the industry. One company representative summarised this as *"We have to internationalise. The domestic markets are too small for us."*. This describes well the significance of the phenomena and the holistic opinion of the Finnish new media industry. Companies put great value to the profitability of their operations. One company phrased this clearly:

"We will rather have less markets, less turnover, less personnel and better profitability than penetrate to multiple markets in search for maximum turnover."

8.2.3 **Internationalisation strategies**

One the objectives for the interviews was to obtain information about companies' internationalisation strategies. It was found out the companies are quite conservative in their approach. None of the companies were seeking for global penetration. On the contrary, some companies were purely focusing on the domestic markets. As noted earlier, the companies saw internationalisation as one of their main targets for the near future. The following quote illustrates the situation:

"We aim to international markets. We will make greenfield investments when needed. At the moment there are still growth potential in the domestic markets, too. We are constantly preparing ourselves to the demands of international markets."

The companies are considering multiple options for their internationalisation strategy. One interviewee listed them as follows:

"We have four internationalisation strategies: forming of an own subsidiary, forming of a joint venture with a local partner, expanding with our clients operations and exporting our own products, know--how and technology. Also we have discussed about participation to different international alliances."

Expansion through Existing Relationships

Most companies saw as their method for internationalisation would be expansion with the existing customer relationships. This is very understandable when considering the limited resources that the companies possess. This is thoroughly described by the following opinions from two different interviews:

"Internationalisation for us is that we grow with our clients' operations. In other words this means that we do not focus on geographical markets, but rather to client markets."

"We will not start to "pump ourselves" to foreign markets with our present limited resources. We want to be a strategic partner for some Finnish company needing assistance in new media solutions abroad"

The companies showed interest to continue working in Finland. They see the domestic market especially interesting for their personnel. Formation of an international network is important, but domestic location even more important. As it was put in one interview:

"We see our internationalisation so that we want to work here in Finland for the international markets. Internationalisation is crucial for our existence, but we want to be located in here. This is why we need to belong to an international network."

Active Utilisation of the Business Network

The Finnish new media companies are also actively establishing a contact and co-operation networks in the foreign markets. Several companies noted that this is the preferred method of operation some projects:

> *"The most convenient and suitable method to internationalise for us is to co-operate with some foreign*

> *"In practice we will search for suitable partners and/or target markets where to form an own subsidiary."*

One company had noted the importance of the network in obtaining a major project from an international contractor. It had had strong personal bonds to the organisation and thus was able to leverage these in both the bidding process and organisation of the multinational project:

> *"We made our largest international deal so far through good personal relationships. We were extremely lucky. On the other hand, we had participated actively in many conferences and learned to know international partners personally and heard about their knowledge. Furthermore, we were able to organise the project to be internationally carried out by our network."*

Market Directions

The Finnish new media companies are interested in multiple markets. Clearly the main focus is in the European new media markets because of our technological advancement in comparison towards these markets. Yet, the client's opinions were considered to carry high value in the market choice. The strategical choice of expansion with customer's operations will also define the markets where to operate in. The following two quotes show the thoughts about the market choice.

> *"The main direction for us is main European markets. Also we need to consider our relationship to the US. It is the most developed market in new media, especially in business relationships and handling of large projects."*

> *"We have clients who have operations in 57 countries around the globe. We will definitely not be present at all of them. We have to balance between own operation, network based operations and no operations in the markets. We will be present where our clients demands us to be, but still among the resources we have. It is waste of resources to start competing against, for example, international advertising agencies in campaign design. We rather co-operate in the areas we know among the best.*

8.2.4 Resources Needed in Internationalisation

The main resource shortage of all the Finnish new media companies is the amount of skilled personnel. As presented in chapter 7.3.3 (p.76), the industry will recruit more than one thousand new employees by 2001. There is a intense competition for talents. This can also be seen as the main constraint for growth in the industry - there are more positions open suitable than applicants.

Finnish companies lack knowledge on various fields (see chapter 7.5, p.79), but one of the most crucial fields is experience in international project management. As one interviewee put it clearly:

> *"Own subsidiary chain is not obligatory, but knowledge on international project management is."*

The companies were, once more, very confident about the adequacy of technological know-how. They are willing to keep their research and development in Finland due to both skilled personnel and, surprisingly, the personnel costs. This is illustrated by the following quote:

"Our technology basis is in Finland, we are able to move it rapidly where ever needed around the globe. Finns are very skilled, they like their country and they still have moderate demands for salaries. Yet, these have risen in the last few months."

Pajula[124] point out one additional shortage that was not found out in the interviews. It is the limited number of experienced advisors for internationalisation. She argues that:

"Simply there are so few of those who can say "Been there, 'done it!". This makes the entrepreneurs to feel fear, become disappointed, not to find the right contacts abroad"

8.2.5 International Management Experiences

As the industry is a its early stages of internationalisation, only few opinions could be gathered about the day-to-day management of international operations. These were obtained from the companies belonging to the international chains. All of the opinions reflected the importance of knowledge sharing between the international units.

One opinion was about sending personnel physically to work in different units. The company noted that:

"We are one of the strategic and knowledge accumulation resource centres inside our group. We will send a representative of our unit to an other unit around the group, wherever and whenever needed - and I mean globally."

This was confirmed by more practical advises about technological methods for knowledge sharing.

"Our whole business idea is based on international markets and co-operation. There are only few days during a week when we are not in contact with our foreign units. We even share the same intranet."

The global companies seem to organise their operations around competence matrixes. The employees register their special knowledge areas to a common database. On the basis of this, they are requested to fill certain knowledge gaps in the global context if needed. This came up as follows:

"Each employee belongs globally to a competence group. If needed, he/she can be sent to operate wherever needed. They have the responsibility of knowledge sharing between the global competence groups, not only local units."

Rationalisation of the Internationalisation Strategy

There is a lot to be carried out in making Finnish new media companies successful in the international market. One special feature is linked to the ambition level of the company. If the focus is put only to domestic operations or operations are planned purely basing them to Finnish situation there is little chance of international triumph. The strategical thinking has to be taken to another level. As it was put by one interviewee:

"Special interest should be put on the mindset of being and becoming an international actor and reflect this thinking in all activities."

When planning of international operations, the Finnish companies should be well aware of their motives for internationalisation. International operations demand resources from domestic operations, they may cannibalise, to some extent, the domestic business. Thus, the goals have to be clear for the internationalising company. This was reflected in the interviews as:

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124 Pajula, 1999, in Lehtinen, 1999, p. 53

"The main question lie in the motive for internationalisation - why to do it? There is and will be market to be shared here in Finland, too. Foreign operations will demand resources from domestic operations. Do we want to utilise them here or abroad and now or later? I do not know. Only thing I know that we have to ready to react"

8.2.6 Financing International Operations

Finance seems to be one of the most interesting topics of discussion for new media companies. The industry is experiencing a significant interest from financiers around the globe. The expectations are high, but so are returns to some companies. Whether the expectation become reality or not, it is clear that a company willing to start offering services in international markets needs "deep pockets", i.e. capital to invest in the operation.

General opinion finance is that capital resources are scarce. Yet, the opening up of the Finnish capital market throughout 1990s have given even SMEs access to financial instruments not available earlier. Thus, most of the new media companies argued that they have no problems in finding investors, rather problems in choosing the right ones. As put by one company:

"There is plenty of capital available. Still, we do not want pure money, we need grey hair expertise to supplement the investment. These kind of investors are harder to find. We want strategists to assist us, not short-term profit makers."

For very small company the finance may become problematic, but most of the new media companies are able to fulfil the needs of financiers. The ones that have been able to access the capital markets argue that the Finnish institutions are all too cautious about their financing decision. An interviewee argued that:

"Until recently our own internal financial resources have been sufficient. Still, this is too slow method for international operations. We want more than pure capital from external financiers. Yet, the domestic financial institutions and the financial funds are all too conservative in their approach to new media. This slows down the whole industry."

Also the governmental support programs were under critique. The following two arguments show the situation:

"The government should realise that in this business half a million FIM is in international context small potatoes. The investments needed for international penetration are much higher. We are doomed to small scale business without large scale support"

"Oh, I wish so much that we would be able to get all the services from the same address or from the same advisor. It has taken at least a year from us to learn the different application and discussion 'protocols' that different support or financing organisations have - it a really a pain - and I do not ations co-operate?"

Another company complained about the focus of the governmental support programs as:

"The last major governmental support program was to support content production internationalisation. We offer professional services, not content. I think the program did not match our needs in this sense."

On the other hand, the Finnish companies were well aware of the value of their knowledge. The companies are not willing to go after the short-term profits but rather they focus on long-term research and development. One company put this as:

"We know that we have skills more that the present value of the company. We want first to have a tenfold turnover to present before any giving share of our company to external financiers."

8.2.7 Internationalisation Problems

There are several obstacles and new considerations that the Finnish companies have encountered in their internationalisation efforts. These relate to increasing requirements, management problems, clientele expansion and to partnership creation. It is clear that reaching for a new position in new markets creates also new problems for the actors.

First, the companies have encountered the demand from their multinational customers to organise their internal processes in a more precise way. One company put this as:

> *"Multinational customers want our processes to be documented. This was a major effort for us. We spent a lot of time and effort in creating them to work. The clients want proof about continuous production quality. Documentation offers this."*

International operations are very challenging to the actors. They require much more attention and may cannibalise the resources from existing operations. The actual creation is always about very hard work from the operation establishers. In paper, the operation may seem very clear, but in practice to turn out to be very stressing and consuming. This was illustrated by a case example from one of the interviewees.

> *"If we, for example, form a subsidiary to London, we will hire a few locals and send a few persons from Finland there. They need an office, portable computers and accounting systems at minimum. Sounds easy - but - the problems arises from management allocation. Let's say we make one hundred units of turnover in Finland. The London unit would make at the starting stages one unit later more. Still, as we have noticed, the operation will take 20-30 % of our management time. Also it is difficult to obtain local customers, we are not a part of local business network.*

The opportunities that international markets offer are interesting. One interesting point of view arose from one interview. The representative stated that the purchasing culture of clients differed in a positive way in the international markets - they were willing to pay more for the same service. Thus, the problem for international operation was in turn coming from domestic markets. Companies were used to set a too low price for their services. The representative stated that:

> *"In Finland, consulting and planning is badly compensated. The new media companies under-priced their services a couple of years ago, and still we are suffering from it. We have noticed that international customers are much more willing to pay for good planning, Finns just want the pure product, nothing else."*

The companies have encountered severe problems in acquiring international customers. We have only few globally spread industries and only few companies can serve them. Our periferic geographical location is a disadvantage that each service company has to struggle with. If a Finnish new media company has to serve its customers in foreign locations, the cost of operation may become non-competitive in comparison to local companies. Also the reputation issue is of great importance. There are not many well known Finnish brand names in the global markets. This was well described by one of the interviewees. He stated that:

> *"Think about it. If you were working for, for instance, an Israeli company willing to purchase new media services. Would you buy them from Finland or rather from some local service company? I'd say local, if possible. This is our main problem in international customer acquisition. To be provocative, I say that being among the best in Finland is close to nothing in the international context- unless having the possibility to ride with our few success stories, mainly Nokia, Sonera and DataFellows."*

The characteristics of the business were well realised by some companies. They understood of being in the service business creates them limitations that are difficult to go around. The export of goods was seen much easier than the export of the "highly tailored and customised services" that the new media companies offer. Partnership agreements was seen as one channel of going around this problemacy. Nevertheless, it had yet only created more worries. This was put by one interviewee:

"We are definitely in service business. It is much easier to, say, export e-commerce software than to export services. We believe that partnerships are the key to service exporting, but making them to work has proved to be very difficult."

Local and International Partnerships and Alliances

To obtain critical information to the context of the new media business network analysis, the interviewees were asked to evaluate the functionality and feasibility of network operations. The concept was regarded very positively, but nearly all the interviewees claimed that there are some major problems in making the network to work. The pace of the industry growth was seen as one of the main obstacles for network operation modes. It was stated that:

"Alliances have not worked out because of the exponential growth pace in the industry. They are good ideas, but so few have the needed time for them. The focus has been on own competence development, not industry co-operation and common interest reinforcement."

The alliances and networks cross traditional industry barriers. All the actors mentioned in chapter X, were seen both as suppliers, customers and competitors. The role depended on the project characteristics. Especially in research and development functions the new media companies were more than willing to co-operate with various partners. One interviewee put it:

"We have chosen our partners and clients so that our future visions would become sooner or later reality. We have long-term partnership agreements on research and development, but we want to keep our profile as low as possible. "

There were two groups of opinions on the alliances, the believers and the sceptics. The following two quotation reflect well the opinions of the industry:

"I am certain that strategic partnerships work, but only if they have shared ownership and interest. In addition, they work only if and as long as they are beneficial to all the partners."

"I do not personally believe in alliances. The values of the organisations has to match. If others want, badly speaking, to "save the world" and we want to make business, we have no interest for co-operation."

The new media companies presented several suggestion of making the network operations to work. First, they saw that the skills of the companies in the alliances need to complement each other. Second, the companies need to be well organised to be able to co-operate. Third, they would need to have the resources to allocate to the network operation project, without resources the operations would not be beneficiary. Finally, only ownership and common interest structures were believed to guarantee the operation success. This was well described by one representative:

"The total commitment is possible only through ownership structures. We are very sceptical towards alliances. The companies have to be functioning very well, expert in their field, to be able to work in network mode. It is possible to collect an impressive list of "partners", but what is the actual work carried out in the network - what is the benefit? I doubt, that it is marginal."

Some companies have realised that the skill complementation is crucial for the operations mode success. They are seeking instead of equal partners for sub-contractors and aim thus to control and master the production network (see chapter 4.3.2, p. 39). This was put by one company:

"We focus on building up subcontracting relationships. These we consider not as partnerships. They are rather about knowledge gap filling and delivery capacity. This is more important to us, than the actual number of partners."

To sum up, the Finnish new companies have realised the potential that networked operation modes may offer for them. Especially they understand their importance in the international markets. Yet, there are several problems to be solved before fruitful co-operation occurs. Some companies are more confident than others in making this. One representative argued this as:

"I feel that we in Finland will sooner or later learn the power of networking. We have no other choice while being faced with so limited resources and small domestic markets. I truly hope that we in the new media industry will realise this very soon, instead of protecting jealously to our domestic positions here."

9. The In-Depth Case Analyses

This chapter will present the data collected from the two small internationalising Finnish new media companies. It will bring up their main problems as well as some examples of international operations already implemented. After the case analyses, the cases will be compared and some collective findings will be presented. The case analyse structures differ from each other due to factors discussed in chapter 6.2 (p. 61).

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PART V: Conclusions and Recommendations

10. Research Conclusions

In this chapter the research objectives are discussed and evaluated with synthesis of the theory and the findings from the field. The chapter will present the internationalisation stage of the Finnish new media industry and estimate the correctness of the research hypothesis. Also a network model of the Finnish new media industry and its internationalisation is presented. Recommendations on the basis of the findings and conclusions are presented in the following chapter.

10.1 Justification for Conclusions

The Finnish new media industry was evaluated in this research from three different perspectives. First, an industry survey was carried out. The findings of it were presented in chapters 7 and 8.1. Second, the internationalisation strategies and skills needed in industry internationalisation were evaluated with twelve structured interviews with sampled new media companies. The findings from these were presented in chapter 8.2. Finally, two in-depth case analyses were carried out to find a more detailed description about the real situation in internationalisation in the companies as well as the problems corporate development and business network building. The findings from these are presented in chapter nine.

Special emphasis was put in finding out the structure of new media business network, also for the international markets. The companies asked to evaluate their relationships and the functionality of the network both domestically and internationally. Additionally, they were asked to identify their goals for the internationalisation. In the interviews and case analyses they were asked also to discuss their strategic targets and methods for international operations. The network theory presented in chapters 3 and 4.3 gave the essential elements for forming the model discussed in chapter 5.2. This was the basis for the analysis and the model will be completed here.

10.2 Main Findings

On the basis of the research seven conclusions of the situation of the Finnish new media industry could be drawn. These are in their logical order:

Finding 1 (F1): New media business (interactive media service provision) is at its basics a professional business service and has similar problemacy in its international expansion to other service companies.

New media could be identified in this research to possess the characteristics of both professional business and knowledge intensive services. Internationalisation in these services is highly based on the importance of reputation creation and acquiring and keeping the right personnel and expansion through the existing relationships. As new media is a knowledge intensive professional business service, it can be stated to have the similar problems and strategies as any other service of this kind.

Finding 2 (F2): New media business is by its birth very global and the companies operating in the industry carry heavy service and know-how export potential.

New media companies are creating services for globally accessible networks with high level of standardisation. The level of customisation can be high for the customer, but on the other hand, the system can be with quite marginal adjustments be localised to foreign countries. This leads to conclusions. First, the industry is by its definition a very global business. Second, the companies that have gained experience in the present WWW-based service creation business, carry a substantial amount of export potential to the markets yet to be developed. Also the technological advancements will enable these companies to use their expertise in the new higher capacity and IP-based networks globally.

Finding 3 (F3): The Finnish new media industry is already in some markets in "late starter" situation. On the other hand the companies are able to arise to be "international among others" by own actions and by technological advancement.

The level of ambition in the Finnish new media companies has not been in the similar level in comparison to e.g. Sweden. In some markets the Finnish companies are slightly late in their internationalisation efforts. Yet, as the domestic markets have been and will also remain in the future an ideal test laboratory for new services, the companies are still able to improve their international position dramatically in the near future. The most promising opportunities exist in the new mobile communication based technologies, such as WAP, EDGE and UMTS.

Finding 4 (F4): The success of the industry is heavily dependant the companies' capability to meet the requirements of the customers and leverage its existing customer relationships.

There are only few highly multinational companies in Finland. The Finnish new media companies are not in a beneficial situation in competition with their Central European counterparts. Yet, the companies have been able to develop skills with the few domestic customers that are of great value in the international competition. Especially the Finnish level in technology knowledge is a competitive edge. Yet, the crucial role in the future has to be put in leveraging the excellent reputation of Nokia and Sonera in the international market. There is a window open for Finnish know-how. This has to be utilised promptly. It can be argued that the key to the international markets lies in these two crown jewels. Yet, the companies should definitely not forget the other Finnish international corporations. They may also offer interesting opportunities for international penetration. Some companies may also be able to access foreign multinational customers through Finnish subsidiaries, as presented in the case analyses.

Finding 5 (F5): Product innovation in the industry requires flexible coalitions crossing traditional industry barriers. The number of these will grow with technological advancements.

The technological development is constantly accelerating. Single company's resources have been shown not to be sufficient for staying up with the development base. As showed by the production network example in chapter 7.1 (p. 69), innovation in the new environment requires efforts from very heterogeneous group of actors, large and small, crossing traditional industry boundaries. Convergence between telephony, data networking and information technology has become reality in modern business. Also media has merged with this most influential business cluster in the world. The innovations emerge from the new mixtures of backgrounds and personnel. It can with little doubt be argued that this development will continue to accelerate in the future, too.

Finding 6 (F6): The main resource shortage for the Finnish new media companies' internationalisation is the lack of skilled personnel.

As found by many other similar studies, the main constraint for information technology related industries is the lack of skilled personnel. New media industry does not differ from this. The company is estimated to recruit one thousand new employees during the next two years. In this it has to compete with multiple other companies and industries for the best talents. It can be seen that there will be great problems in obtaining the people with the right knowledge combination. The new media knowledge areas presented also in this research (see chapter 2.2, p. 13) are very much learned at the spot, working inside the new media company. Thus, the educational system may also be in problems of training the required personnel for the expected international growth in the industry. Furthermore, it can be estimated, even without further research, that the situation in foreign markets will be very similar to the Finnish job markets for talents, if not worse.

Finding 7 (F7): Financial capital is available in the markets. Yet, the Finnish companies are not experienced to work with external financiers and high growth requirements

The Finnish capital markets opened up for foreign capital only at the beginning of the 1990s. During the last few years, there has a growing number of new financial instrument launches. At the moment, even a small start-up company has numerous possibilities for obtaining financing, especially in the high-tech sector. Foreign investors have shown increasing interest towards Finnish high-tech and it can be argued that there is plenty of capital available, if needed and if collected properly.

Yet, many Finnish companies, also in the new media industry, are struggling of severe financial problems for their growth plans. They have technologically a very advanced product and are also willing to invest their time an effort for the development of it. Yet, the inventors are not used to conceptualise their know-how for the financiers. This is well seen at the new media sector, where nearly all the successful business concepts are coming from abroad, excluding business-to-business solutions. It can be argued that the level of ambition mentioned also in F3, has an impact to the finance collection. The Finnish new media companies are targeting to low goals in comparison to the knowledge levels existing in the organisations. Though the situation has changed during the last few years, this lack of large scale growth plans was striking during this research, too.

10.3 Hypothesis Evaluation

The research hypotheses were found to match the reality to a great extent. Yet, some differences in assumptions and justifications were perceived. The four hypothesis and their revised phrasings are presented here below.

Hypothesis 1 (H1): New Media Industry's internationalisation vs. professional business services' patterns

As already discussed in Finding 1 (F1), the new media business is a true professional business service. It is highly dependant on the skills of individual persons in the organisation. It also very knowledge intensive and demands a high level of education from its personnel. Yet, new media business has some special features, and thus its cannot be argued that it does not differ from other professional businesses at all. Still, in its internationalisation patterns the industry follows very much the problemacy of any other business service. Some companies can be formed as "born globals" but so can they be also in many other service businesses. Thus hypothesis 1; "*Internationalisation of the new media industry does not differ from other professional business services*" can be seen as correct. This gives an sound theoretical basis for further analyses of the industry in upcoming research projects.

Hypothesis 2 (H2): Driver for internationalisation - demand for growth?

In the hypothesis 2 it was stated that the new media companies are aiming for international market mainly because of the need to continue with the pace of growth they have experienced during the last few years. This was found to be the reality only partially. There are several other factors that affect the focus. One of the most influential factors is the previous experience of the entrepreneur and also the ambition level he/she puts for activities. Also customers have a great impact to the internationalisation of the companies. Thus, the second hypotheses has to be rephrased as follows:

"*Finnish new media companies are aiming for international markets to obtain additional growth and to serve their customers better. In addition, the internationalisation is dependent on the ambition level of the company's owners and personnel.* "

The second hypothesis has its implication for analysing the strategies of the companies. Both external and internal factors have to be included in the analyses.

Hypothesis 3 (H3): Relationships across borders

The third hypothesis was about the importance of relationships utilisation in internationalisation. As Finnish companies are not centrally located to the main global markets, relationship creation and maintenance will be in crucial role for the companies. Purchase of professional business services is based on high trust. The Finnish companies need to extend their relationship across national borders. There is a great market potential for Finnish know-how. Now the question lies on how to make successful business concepts out of it. At the light of this research it can be argued that *the relationships the new media companies can solve and nurture in international markets will decide on the success of the operations*. Thus, the hypothesis is considered to be true.

This hypotheses has implications to the future analysis. The focus has to be put in using the network approach and the finding about the relationship structure more thoroughly.

Hypothesis 4 (H4): Leveraging existing relationships

The final hypothesis was about the main channel for internationalisation of the new media companies was leveraging the existing customer relationships. This was strongly confirmed by all the methods; literature review, industry survey, interviews and case methods. During the last few years, the Finnish new media companies have been able create well functioning business relationships to their domestic customers. They have also obtained some interesting international/global leads. It is very clear that the existing international relationships are the springboard for the new media industry to foreign markets. References of successful productions to e.g. Nokia and Sonera, will open up opportunities outside Finland. The companies have to fast and strong enough to utilise this position and establish operations in the foreign markets, too. The hypothesis "*The main channel for internationalisation of the Finnish new media industry*" is regarded to be true.

In the future analyses the special attention can be put on analysing the customer relationships, their history and their utilisation in business. In internationalisation studies, this aspect offers interesting areas to make analyses.

10.4 The New Media Business Network Definition

This chapter will define and discuss the internationalisation of the Finnish new media business network as presented in chapter 5.2. Each element is presented separately and then they will be illustrated graphically in the end of the chapter.

Identification of Actors

There are multiple group of actors in the new media markets. There were discussed in detail in chapter 6.1. The actors are both domestic ad international by their origin. Actors can be divided into core actors and supplementary actors. The main actor groups can be defined as presented in Table 30.

Table 30: Actors in the new media markets

The core of the network	Extended network
• New media companies (existing and new start-ups)	• Financiers (venture capitalists, direct investors, financial institutions)
• Traditional media companies (print, radio, television, cable companies)	• Governmental organisations
• Telecommunication operators	• Education and training organisations
• Communication equipment producers	• Labour organisations
• Information technology (IT) equipment producers	• Research institutions
• IT Software and systems companies	
• Consulting companies	
• Advertising agencies	
• Audio-visual producers	

Identification of Operations

New media activities and operations were discussed in chapters 1.5 (p. 4) and 7.3.2 (p. 75). The products and services that the companies offer include three groups: core, supplementary and infrastructure activities. These form the first main group of operations the actor carry out in the business network. The core activities are:

- Planning and implementation for multimedia products and services
- Planning and implementation of WWW products and services
- Internet-based advertising and marketing services
- Internet service offering

The two supporting activities are internet consulting and training and the two infrastructure-related activities are internet hosting and internet connection services.

In addition to the main activities that the companies work on, they also operate in research and development projects either by own resources or in joint efforts. This forms the second major group of operations for the companies in the network.

Third group of operations are the business network building activities. These include formal and informal negotiations on project co-operation, financing, sub-contracting agreements or possible research and development activities. The network building operations can be either based on the chosen business strategy on spring on totally ad hoc basis, on occasions such as seminars or conferences.

Identification of Resources

The companies in the new media business network own and compete on the ownership of multiple resources. Resources were discussed in chapters 3.1 (p.21) and 7.5 (p.79). These can be classified into five major groups: personnel, hardware, organisational, software and financial resources. The key resource was found out to be the company personnel. The more detailed listing of the required resources in the new media industry are is presented in Table 31.

Table 31: The New Media Resources

Personnel	Hardware	Software	Organisational	Financial
• Business • Technical • Design • Other	• Office premises • Production machinery	• Licences • Intellectual property rights • Proprietary contents • Production process knowledge • Knowledge about technology • Knowledge about customers • Production software	• Strategies • Goals • Organisational culture • Organisational structures	• Finance for operations (e.g. R&D, commercialisation, internationalisation)

Internationalisation considerations

The internationalising company (actor) has to constantly be aware of using the right combination of resources to right operation. The market entry decision was discussed in chapter 4.3.2 (p.39). At its basics the consideration for the international activity consist of three choices: operation, partner and resource choices. The choices are made according to the information obtained from the network and to company's accumulated experience. The choices are made constantly and justifications and adjustments to the resource combination are very common.

Structure of the business network.

The new media markets can be divided for the analysis purpose into domestic and international groups. The both carry their special characteristics in actors, activities and resources. It is difficult to make industry level generalisations due to the fact that the companies operate in micro- and macro-network. The micro-network is formed by its relationships to other companies. The macro-network is formed by the interdependencies between the actors and the aggregate of all the mutual relationships. Different companies see their positions and relationships in different ways. Yet, at the basis of this analysis some generalisations were formed. These are presented in Table 32. The actors, activities and resources are presumed to be similar than presented earlier. The table present some special features of the each element of the network.

Table 32: Characteristics of Domestic and International New Media Markets

	Domestic Markets	International Markets
About actors	• Some very competitive and growth seeking new media companies • Finnish companies among the world leaders in mobile technology	• Highly competitive markets • Many opportunities exist for fast movers • Heterogeneous technological know-how and infrastructure • Few experienced and global players in new media • Large international IT actors are starting to be active
About resources	• Well educated and skilled personnel available • High-level of technological know-how • Limited number of international customers • Skilled users and advanced infrastructure	• Shortage of skilled & experience IT personnel • Financial capital available for well defined business ideas and concepts • Many large customers available, but serving them demands resources
About activities	• Consolidation of companies via mergers and acquisitions • Mobile communication creates new opportunities and activities • Market size in 2000: FIM 1 billion, ~3000 employees	• Internationalisation and globalisation is an actuality • Large international customer projects carried out • All major companies are building international relationships

Positioning the Finnish New Media Industry

The companies and the Finnish industry is battling for improvements in its positions in both domestic and international markets. The positions are defined by not only by the factors presented in the earlier chapter, but also some other facts, e.g. the reputation of Finland as the "laboratory for high technology". The positioning factors are presented in Table 33.

Table 33: Domestic and International Positioning in the New Media Business Network

Domestic positioning features	International positioning features
• Subcontracting activities (at the moment only 10 %) • Companies knowledge of each other is very good due to small markets • Governmental activities encourage for net-working, e.g. in R & D projects • Finland is the test laboratory for high-tech solutions -> reputation of the trials	• Finnish companies have some subcon-tracting experience across borders, e.g. to the Baltic countries • Only few companies have a strong interna-tional focus • The new media companies can leverage on the success stories of Nokia and Sonera • New international customers are obtained through business relationships • Foreign competitors are entering and have entered the Finnish market <- reputation

Illustrated Frameworks

Figure 35 and Figure 36 on the next pages illustrate business network and the internationalisation framework in the Finnish new media industry. The figures also sum up the main findings of this research.

Figure 35: Business Network in the Finnish New Media Industry

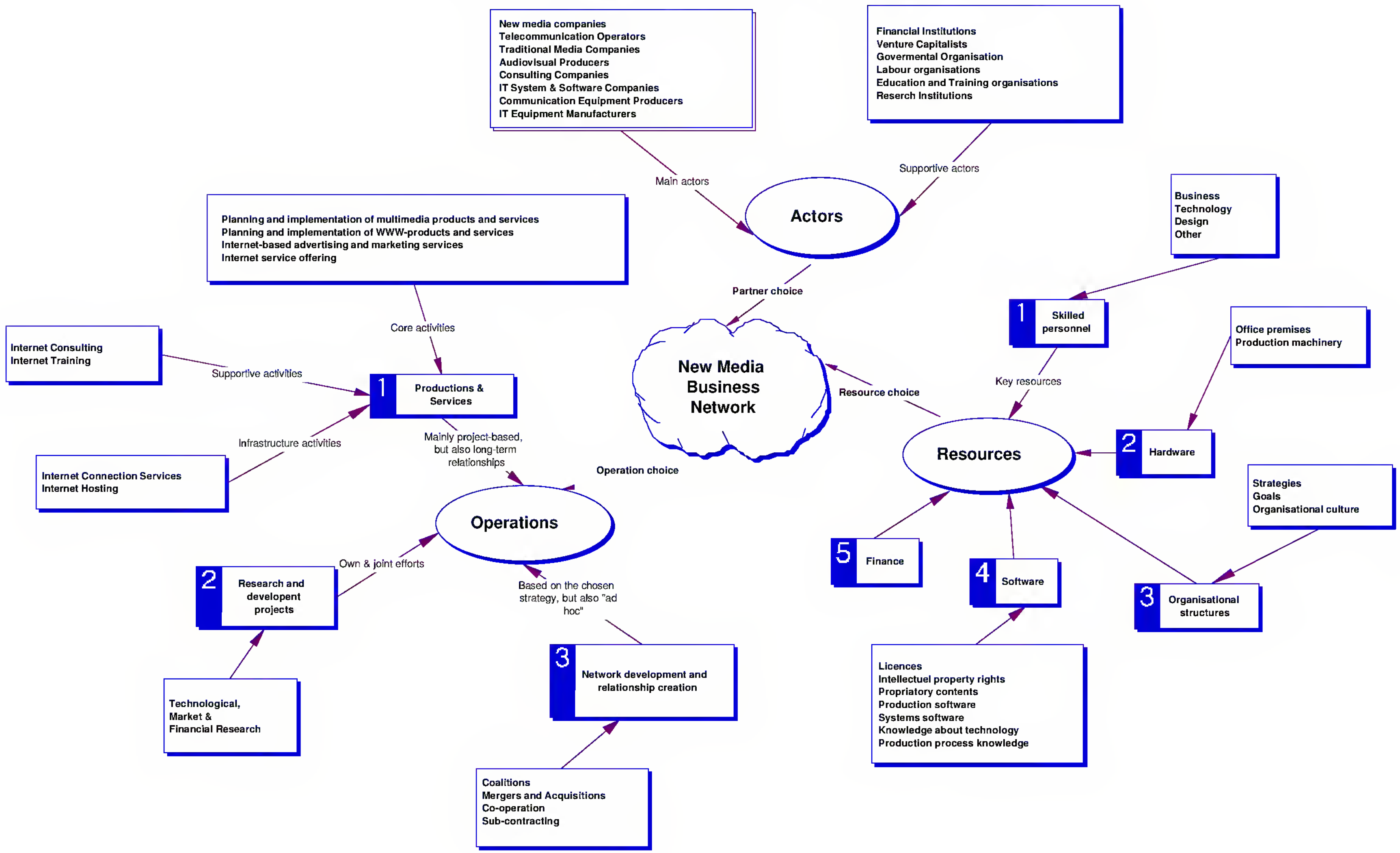
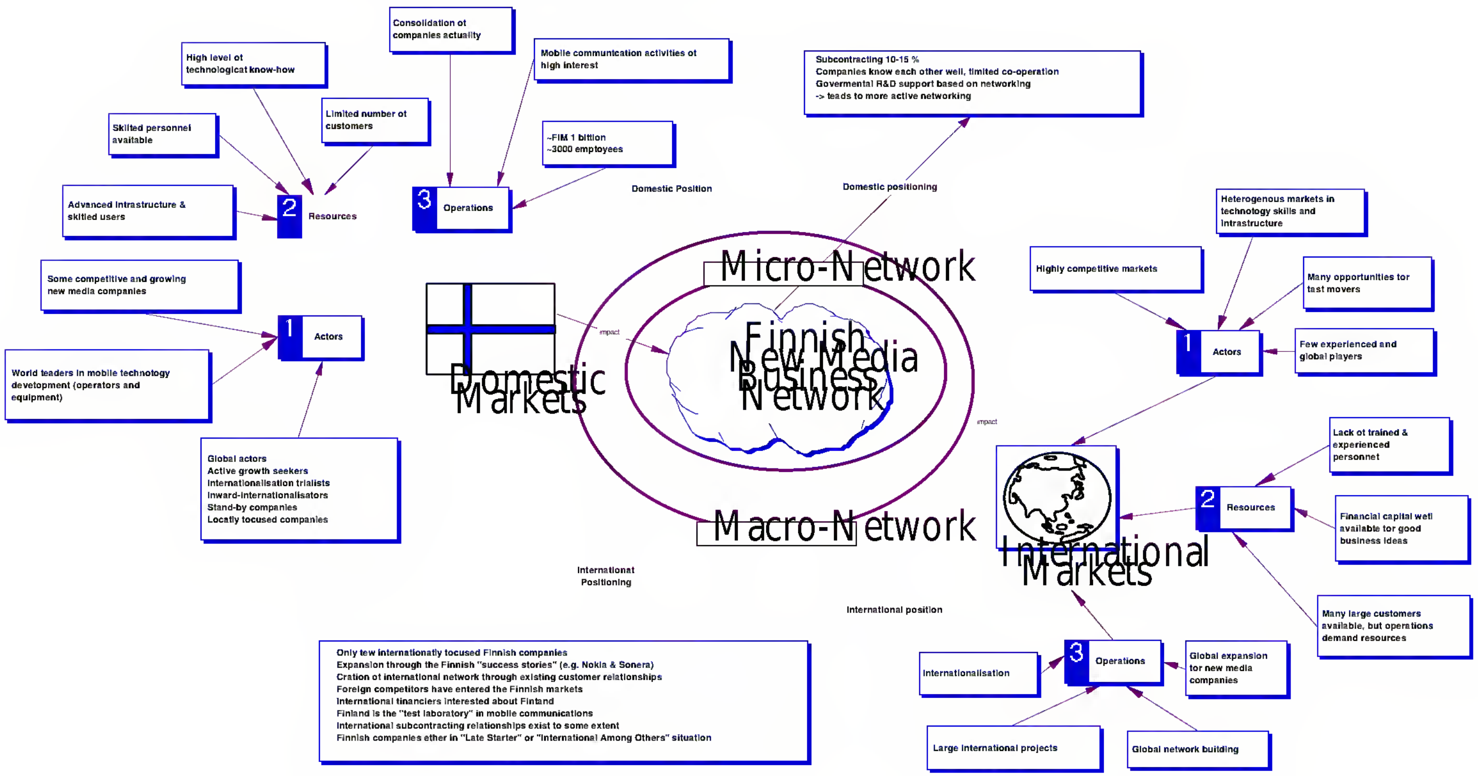


Figure 36: Internationalisation Framework in the Finnish New Media Industry



11. Recommendations

This chapter will present the main recommendations of the research. It will come up with heoretical and managerial implications as well as ideas for further research. The chapter concludes the research.

11.1 Theoretical implications

This research presented the theories and findings from several recent studies related to:

- Professional business services, their characteristics and competitive edges
- Internationalisation theories, especially related to resource and network-based internationalisation
- Services in Finland, their characteristics and internationalisation situation

The theories and findings from the studies were reflected and analysed to form a preliminary internationalisation analysis model. The object of the research was a new professional business service sector - new media industry. The model was tested by analysing the industry with multiple methodology, i.e. survey, interviews and case analyses, to assure the credibility of suggestions. On the basis of the analysis, the model was revised and the main characteristics of new media industry were added to it. This created and case example of how an industry can be defined by using the proposed model based heavily on network theories.

During the research process, four hypothesis about the Finnish new media industry were tested. First, the preliminary hypothesis were formed and according to the research findings these were rephrased to match to the situation in industry. These tested hypotheses form a sound base for future analyses.

The research showed that with network approach to internationalisation of services the dynamic characterisitcs of the process can be described. The framework consisted of three elements: actors, operations and resources. By analysing of the interdependencies between these, it is possible to form a holistic picture of the main forces that run an industry. The model can be used to analyse not only service businesses, but also more traditional manufacturing industries.

The research did not analyse the relationships in detail. The main emphasis was to for the general picture of the new media industry. There should be more research carried out to analyse the interdependencies in more through manner. This research is a basis for this work.

The contribution of the research to the academic discussion was to bring new data and perspective from a highly dynamic industry. New media and communication technologies have had a substantial impact on the way businesses are run globally. Yet, there has not been many focused studies on the features in the industry that creates these services and applications. This research brought these insights to discussion. It also continued the research series about the Finnish new media sector started with co-operation of the Helsinki School of Economics and Business Administration and University of Design and Arts in 1997. Also this thesis is one of the few publications published in English about the industry.

There are several interesting topics and areas that need further analyses. In the last section of this main chapter several ideas for further research will be presented. This research contributed also for the creation of these research ideas. It is with no doubt that there is room for continuos analysis due to the high-growth rates and technological advancements that shape the industry. New media industry will continue to be an challenging, but also interesting research topic in the future.

11.2 Managerial Implications

There are several interesting aspects that were brought up by this research to the use of new media industry related managers. First, a large amount of new data and charts were introduced. These are of great value for the new media companies in e.g. negotiations with their international financiers. The new media industry is still very young and needs a lot of support from different parties. This study provides them some *scientifically analysed and independent data that the companies can use in their activities*.

Second, the companies were introduced to the network approach of internationalisation. If the companies are able to start analysing their positions and develop their relationships better on the basis of this research, the contribution of it is important. At the moment, the networks are not utilised to the extent that their possibilities would enable. As noted, the attitudes of the entrepreneurs are the most limiting factor for co-operational modes. This study may *assist in bringing these barriers a bit lower*.

Third, *the network model of new media industry is the first of its kind to be presented*. It combines several elements that were known earlier and introduces also some new ones. The model creates more understanding of the dynamics of the new media business. Also it may *help the companies to understand the importance of their accumulated knowledge* and each activity's impact to the their positions in micro- and macro as well as domestic and foreign networks.

Fourth, the internationalisation hypothesis showed that companies need to focus on *serving their customers and leveraging the existing relationships* in their international operations. The findings may have *assist the companies to realise the importance of them*. The Finnish companies need to extend their operations to foreign markets. They have the know-how to be exported and efficient relationship management enables them to seek for new markets.

Finally, the research collected some of the *experiences of other service sectors' internationalisation*. The new media companies should be able to learn from these and understand to take the correct actions for their internationalisation success. There is know-how in Finland about international operations. It just has to be brought to the places it is needed. It is clearly seen, that new media sector in Finland is one of these.

11.3 Suggestions for Further Research

The research formed a basis for several new topics to be researched on. *The approach that is highly recommended to all the further studies is the netwokr and resource-based approach*. A much more information is needed on the dynamics of the new media business network. The following ideas for further research are all based on this thinking.

First, the new media industry is very dependant on the external finance for operations. One new study should *evaluate the different options for finance and their opportunity costs for the company*. This should take into account all the possible methods for finance from internal financing sources to venture capital and stock listings. There could also be comparative elements to other elements such as to software industry or between countries, e.g. Finland and Sweden.

Second, there should be *independent comparative studies about the business networks between countries*. The main emphasis in these could be in analysing the business relationships and their impact on the operation success. The backgrounds of the entrepreneurs should be included in the analysis to form the holistic picture of relationship formation.

Third, one research topic could be *comparative study between the internationalisation of knowledge intensive services*. The studies presented in this research included only one industry and were done with different emphasises. The new research could combine the industry analyses and focus on the similarities and differences between the service sectors. The network approach has not been used in the other service sector analyses and this could bring out some new interesting findings.

Finally, the *converging industries and the alliances crossing traditional industry barriers* should be analysed. This would bring interesting issues about the new innovation creation as well as about the business development in the information technology industry. The is one of the most challenging topics and would probably require a group of studies to be carried out. Yet, this analysis would bring a interesting insights to the reality and roles in the converging industries.

APPENDIX I: Survey Questionnaire

YRITYKSEN TOIMINTA-ALUE

1. Yrityksenne liikeidea lyhyesti: Mitä teette ja kenelle?

2. Kuinka kauan yrityksenne/ yksikkönne on toiminut uusmediatoimialalla?
a) alle vuoden
b) 1-2 vuotta
c) 3-5 vuotta
d) yli 5 vuotta

3. Miten yrityksenne / yksikkönne aloitti toimintansa uusmediatoimialalla?

b) olemassaolevan yrityksen uutena yksikkönä

d) vaihtamalla toimialaa
e) useamman yrityksen yhdistäessä liiketoimintansa, mitkä
yritykset?

4. Onko yrityksenne uusmediatoiminta voitollista?
a) Kyllä
b) Ei

HENKILÖSTÖ JA OSAAMINEN

5. Henkilöstönne määrä?

	A. Täyspäiväinen	B. Osa-aikainen
a) 1997	________	________
b) 1998	________	________
c) 1999 (arvio)	________	________

6. Henkilöstön työtehtävät:
Kuinka paljon yrityksessänne / yksikössänne toimii työntekijöitä seuraavissa uusmediatuotantoihin liittyvissä työtehtävissä. Merkitkää taulukkoon työntekijänne
päätoimisten työtehtävien mukaisesti eli yksi henkilö voi olla vain yhdessä
kohdassa.

a) Asiakasyhteyksissä ja projektien johtotehtävissä, kuten
Asiakassuhteiden luomisessa, ylläpidossa sekä asiakkaiden tarpeiden kartoitustehtävissä ________

Tuotantoprojektien ja -ryhmien johtamisessa ________

b) Teknisissä tehtävissä, kuten
Tietojärjestelmien suunnittelussa ________
Ohjelmointitehtävissä ________

c) Luovissa tehtävissä, kuten
Graafisessa suunnittelussa ________
Sisältö- ja tekstisuunnittelussa ________

d) Muissa tehtävissä? ________
missä ?

7. Arvioikaa millaisiin työtehtäviin yrityksenne tarvitsee lisää työntekijöitä seuraavan vuoden aikana ja kuinka paljon?

henkilöä

a) Asiakasyhteyksiin ________
b) Projektien johtotehtäviin ________
c) Teknisiin tehtäviin ________
d) Luoviin tehtäviin ________
e) Muihin tehtäviin, millaisiin? ________

8. Henkilöstönne koulutustausta?

henkilöä

a) akateeminen loppututkinto ________
b) akateemiset opinnot vielä kesken ________
c) ammattikorkeakoulututkinto / opinnot kesken ________
d) opistotason tutkinto / opinnot kesken ________
e) ammattillinen perus/erikoistutkinto ________
f) peruskoulu/lukio ________
g) muu koulutustausta ________

9. Henkilöstönne ammatillinen koulutustausta koulutusaloittain (lukumääräisesti)?

henkilöä

a) Tekninen ________
b) Graafinen / design ________
c) Viestintä ________
d) Kaupallinen ________
e) Itseoppinut alalle ________
f) Muu koulutus ________
mikä ____

10. Mistä tai miten rekrytoitte tarvitsemanne ihmiset?
(nimetkää kolme tärkeintä rekrytointikanavaanne, 1=tärkein)

	1	2	3
a) lehti-ilmoitukset			
b) messut			
c) internet			
d) henkilökohtaiset suhteet			
e) muu			

mikä ____

11. Minkälaisista osaajista yrityksessänne on pulaa lähitulevaisuudessa?

TUOTANNON ORGANISOINTI

12. Alihankinnan osuus kokonaistuotannostanne (%)

	%
1997	________
1998 (arvio)	________

13. Mitkä osiot tuotannostanne alihankitte?

14. Miten kuvailisitte yhteistyötänne muiden uusmediatoimialan yritysten kanssa?

1 kuvaa yrityksemme yhteistyösuhteita hyvin
2 kuvaa yrityksemme yhteistyösuhteita jossain määrin
3 ei kuvaa yrityksemme yhteistyösuhteita

	1	2	3
a) Yrityksellämme ei ole juuri lainkaan yhteistyötä muiden alan yritysten kanssa			
b) Yhteistyö on satunnaista/projektiluontoista			
c) Yhteistyö on alihankintaa			
d) Yhteistyö on partnerisuhteiden luomista, jossa jaetaan liiketoiminnan riskit			
e) Koko liiketoiminta-ajatus perustuu aktiiviseen, toistensa toimintaa täydentävien yritysten verkostoitumiseen			
f) Yrityksellämme on ulkomaisia yhteistyökumppaneita			

	1	2	3
a) uusmediayrityksen maantieteellinen sijainti			
b) henkilökohtaiset suhteet			
c) olemassaoleva yhteistyösuhde			
d) mainostoimistoyhteys			
e) yrityksen imago			
f) sopiva hinnoittelu			
g) kyky toimittaa kokonaisvaltainen ratkaisu			
h) asiakkaan liiketoiminnan ymmärtäminen			
j) referenssityöt			
k) uusmediayrityksen kansainvälisyys			
l) muu,			
mikä?			

24. Mitkä asiat aiheuttavat ongelmia ollessanne yhteistyössä asiakasyritysten kanssa?

1. Aiheuttaa usein ongelmia
2. Aiheuttaa joskus ongelmia
3. Aiheuttaa harvoin ongelmia
4. Ei aiheuta ongelmia

	1	2	3	4
a) Asiakkaalla on riittämätön tekninen tietämys				
b) Asiakas ei tiedä, mitä haluaa				
c) Asiakasprojekteista puuttuvat selkeät tavoitteet				
d) Asiakas vaatii liikaa panostukseensa nähden				
e) Uusmediaa tehdään vain 'hypen' vuoksi				
f) Asiakkaalla ei ole tarpeeksi aikaa paneutua sisällön suunnitteluun				
g) Vastuunjako on epäselvä				
h) Sitoutuneisuus on puutteellista				

SUOMALAISEN UUSMEDIATOIMIALAN OMINAISUUDET

25. Arvioikaa suomalaista uusmediatoimialaa seuraavien väittämien mukaisesti.

Merkitkää asteikkoon 1-7 seuraavien vastakohtaisten väittämien paikkansapitävyys.

	1	2	3	4	5	6	7	
a) Uusmediayritysten tekninen osaaminen on kansainvälisesti huipputasoa								Uusmediayritysten tekninen osaaminen on kansainvälisesti alhaisella tasolla
b) Uusmediayritysten sisällöllinen osaaminen on kansainvälisesti huipputasoa								Uusmediayritysten sisällöllinen osaaminen on kansainvälisesti alhaisella tasolla
c) Uusmediayritysten liiketoiminta on ammattimaista								Uusmediayritysten liiketoiminta on epäammattimaista
d) Uusmediayritykset ovat keskittyneet ydinosaamiseensa								Uusmediayritykset rönsyilevät moneen toimintaan
e) Uusmediayritysten tuotannot ovat korkealaatuista								Uusmediayritysten tuotannot ovat heikkolaatuisia
f) Uusmediayrityksillä on toimivat yhteistyöverkostot								Yhteistyöverkostot puuttuvat yritysten väliltä
g)Uusmediapalveluiden kysyntä jatkaa kasvuaan								Uusmediapalveluiden kysyntä tasaantuu
h) Yrityksemme palkkaa paljon uutta henkilöstöä uusmediatoimintoihin								Pyrimme toimimaan jatkossa nykyisellä henkilöstöllämme.
j) Markkinointi- ja myyntiosaaminen korkeatasoista								Markkinointi- ja myyntiosaaminen puutteellista
k) Ulkomaiset yritykset eivät aiheuta lisäpaineita toimialalla								Toimilan sisäinen kilpailu kiristyy ulkomaisten yritysten taholta

TOIMIALAN KEHITYSNÄKYMÄT

26. Miten seuraavat väittämät kuvaavat mielestänne uusmediatoimialaa Suomessa?

1. Täysin samaa mieltä
2. Jokseenkin samaa mieltä
3. Jokseenkin eri mieltä
4. Täysin eri mieltä

	1	2	3	4
a) Alan kasvu jatkuu ennätysmäisen nopeana				
b) Alan yritysten kannattavuus paranee huomattavasti				
c) Elektroninen kaupankäynti lisääntyy voimakkaasti				
d) Toimiva verkkoraha käyttö yleistyy				
e) Alan yritysten lukumäärän kasvu jatkuu				
f) Yritysten innovatiivisuus vähenee yritysostojen myötä				
g) Uusmedian huippuosaajat siirtyvät ulkomaille				
h) Perinteiset mainostoimistot valtaavat uusmediatoimialan				
i) Alan yritykset keskittyvät muutamaksi suureksi ryhmäksi				
j) Suomalaiset uusmediayritykset kansainvälistyvät				
k) Kansainvälistyminen tapahtuu pääasiassa asiakkaiden liiketoimintojen mukana				
l) Suomesta ei löydy riittävästi korkeatasoista teknistä osaamista				
m) Suomesta ei löydy riittävästi korkeatasoista uusmediaosaamista				
n) Internet-teknologia integroituu yritysten liiketoimintaprosesseihin				

27. Mikä on näkemyksenne siitä, miten uusmediatoimiala tulee muuttumaan parin seuraavan vuoden aikana? (kilpailutilanne, kansainvälistyminen, kysynnän kasvu, työllistämisvaikutukset jne.)

28. Mitä kehittämishankkeita toivoisitte julkiselta vallalta (tuotantotuet, koulutusjärjestelmä, tuotekehitys jne.)?

APPENDIX II: General Interview Scheme

1 Uusmedian markkinakehitys

- Miten luonnehtisitte liiketoimintaanne? Mitä teette ja kenelle?
- Miten uusmediamarkkinat kehittyvät lähiaikoina?
- Miten tämä voi muuttaa liiketoimintaanne?

2 Toiminnan organisointi ja osaaminen

- Kuvailkaa perustellisesti myynnin ja tuotannon organisointianne
- Mitkä ovat tuotannon kriittiset vaiheet ja millaista osaamista niissä tarvitaan?
- Mitkä osaamisalueet koette tärkeimmiksi tämänhetkisessä liiketoiminnassanne?
- Mitkä ovat olleet suurimmat ongelma-alueet toteutetuissa projekteissa ja miten ne on ratkaistu?

3 Rekrytointi ja koulutustarpeet

- Mitkä ovat tärkeimmät henkilöstön rekrytointikriteerit? Mistä rekrytoitte?
- Miten nykyinen koulutustarjonta vastaa omaan tarvettanne?
- Millaisia ohjeita haluaisitte antaa koulutusviranomaisille/ yksityisen sektorin koulutuslaitoksille?

Appendix III: General Interview Analysis Framework

Yleistiedot
Liikeidea
a) yrityksen mukaan
b) omin sanoin
Liikevaihto
Henkilöstön määrä
Asiakkaat
Omistusrakenne
Tuotteet

Markkinakehitys ja tulevaisuus
Esiintuodut makrotrendit ja niiden vaikutus toimialaan
Muuta mielenkiintoista

Kansainvälistyminen
Syyt
Strategiat
Tavoitteet
Markkinat
Ajoitus
Miten toteutetaan käytännössä?

Toiminnan organisointi
Prosessikuvio selityksineen
Sisäinen organisointi selityksineen
Syiden pohdintaa, miksi näin organisoitu?

Toimenkuvat

	Työnkuva X
Yleiskuvaus	
Rekrytointikriteerit	
Päätehtävät (sido prosessiin)	
Teknis-tuotannolliset taidot	
Sosiaaliset taidot	
Henkilökohtaiset ominaisuudet	
Yleistaidot	
Poikkeustilanteessa tarvittava osaaminen	
Lähitulevaisuuden näkymät	
Uranäkymät	
Uraeteneminen yrityksen sisällä	
Montako tälläista ko. yrityksessä	
Henkilöstövajaustako?	

Osaamisalueet

	Henkilösidonnaiset…	Yrityssidonnaiset…
Yleiskuvaus		
Perusta synnylle		
Lisäarvon luontikyky		
Kriittisyyden arviointi		
Puutostilat		
Muutospaineet		

Pohdittuna yrityskohtaisesti, ei toimialatasolla

Koulutustarpeet
Koottuna terveiset ja ehdotukset koulutusviranomaisille

Rekrytointiprosessit
Koottuna havainnot rekrytoinnin sujumisesta

APPENDIX IV: Interview Scheme I

Kesto: noin 1 - 1,5 h
kysymykset ovat lähinnä strukturoimassa haastattelua, eivät absoluuttisia keskusteluaiheita.

Alkuun: tarkistuta omat tietosi yrityksestä tehdyn analyysin perusteella

Casen rakentaminen

Taustaa:

- Miten asiakassuhde sai alkunsa? (kuka, milloin, miten)
- Kenen vastuulla oli asiakassuhteen kehittäminen?
- Kuinka merkittävä asiakassuhde oli yrityksellenne suhteen alkuvaiheessa, entä nyt?

Tuotanto ja sen eteneminen

- Miten tuotantovaiheet etenivät kotimaassa ja ulkomailla? (kronologisessa järjestyksessä, tuotantosukupolvet, piirrä aikajanalle)
- Kuinka paljon henkilöstöä sitoutui työhän eri vaiheissa?
- Miten asiakassuhdetta hallittiin tuotannon aikana ja sen jälkeen?
- Oliko tuotannossa mukana muita toteuttajia kuin yrityksenne? Jos oli, niin millaisia ja miten yhteistyösuhteet ja työnjako toimivat

Kansainvälistyminen:

- Miten päädyitte tekemään asiakkaallenne kansainvälistä tuotantoa?
- Liittyikö päätöksenne toteuttaa tuotanto omaan suunnitelmaanne kansainvälistymisestä, miten?
- Miten toteutitte kansainvälisen tuotannon? Käytittekö paikallista työvoimaa? Jos näin, niin miten etsitte tämän henkilöstön? Oliko teillä kv.partneita, ja jos oli, niin millainen heidän roolinsa oli tuotannossa?
- Miten mittasitte asiakkaanne tyytyväisyyttä työhönne?
- Kuinka valvoitte kv.tuotannon laatua ja omien standardienne mukaisuutta?

Jatkosuunnitelmat

- Miten aiotte edetä asiakkaanne palvelujen kehittämisessä
- Miten aiotte hyödyntää kansainvälistymistä kokemustanne omassa kv.prosessinne?
- Onko tuotantomalli, jota käytitte, hyödynnettävissä toisaalla? Miten?
- Mitä olette oppineet tämän asiakkuuden kautta ja mitä tekisitte nyt toisin?

Loppuun: vamista aika toiselle haastattelulle ja selvitä miten se liittyy tähän teemaan - johtoajatus: siinä käsitellään koko yrityksen asioita

APPENDIX V: Interview Scheme II

Kesto: noin 1 - 1,5 h

Asiakas-case ja sen tarkentaminen

- tarkenna haastatteluissa epäselväksi jääneitä asioita kirjoitun haastattelumuistion perusteella

Kansainvälistymssuunnitelmat

Suunnitelmallisuus yleisesti

- ♦ Miten yrityksenne suunnittelee tulevaisuuttaan?
- ♦ Onko suunnitelmat dokumentoitu ja jos on niin miten?
- ♦ Kuinka suunnitelmien toteutumista seurataan?
- ♦ Miten kansainvälistymistänne suunnitellaan?

Tulevaisuus

- ♦ Kuinka merkittävässä roolissa kansainvälistyminen on yrityksellenne?
- ♦ Millä markkinoilla yrityksenne on kolmen vuoden päästä?
- ♦ Miten aiotte toteuttaa nämä operaatiot?
- ♦ Millaisia epävarmuustekijöitä näette tässä muutoksessa?
- ♦ Mitkä ovat suurimmat uhat kansainvälistymisellenne?
- ♦ Miten rahoitatte kansainväliset operaationne?
- ♦ Millaista tukea toivoisitte valtionhallinnolta kansainvälistymisellenne?

Kansainvälistymiseen liittyvä osaaminen

- ♦ Millaista osaamista yrityksessänne on tällä hetkellä?
- ♦ Millaisesta osaamisesta on pulaa liittyen kansainvälistymiseenne?
- ♦ Miten aiotte lisätä tätä osaamista yrityksessänne?
- ♦ Millaisilla toimilla julkishallinto voisi tukea pyrkimyksiänne?

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General Interviews

Date of the interview	Position of the interviewee	Place of the interview	Time of the interview
October 12, 1998	Managing Director	Helsinki	1,5 h
September 30, 1998	Managing Director	Helsinki	1,5 h
October 6, 1998	Managing Director	Helsinki	1,5 h
September 29 , 1998	Consultant	Helsinki	1,5 h
October 6, 1998	Marketing Manager	Helsinki	1,5 h
October 7, 1998	Managing Director	Espoo	1,5 h
October 9, 1998	Managing Director	Helsinki	2 h
October 6, 1998	Managing Director	Helsinki	1,5 h
October 7, 1998	Project Manager	Helsinki	1,5 h
September 29, 1998	Managing Director	Helsinki	1,5 h
October 14, 1998	Managing Director	Tampere	1,5 h
October 9, 1998	Managing Director	Helsinki	1,5 h

Case Study Interviews

Date of the interview	Position of the interviewee(s)	Place of the interview	Purpose	Time of the interview/ negotiation
Technet Oy				
March 30, 1999	• Managing Director • Marketing Manager • Technical Manager	Helsinki	• Customer Strategy Interview	3 h
April 22, 1999	• Managing Director • Marketing Manager	Helsinki	• Internationalisation Strategy Interview	2 h
July 29, 1999	• Managing Director • Marketing Manager	Helsinki	• Analysis of the earlier interviews	2 h
August 19, 1999	• Managing Director • Marketing Manager • Foreign Partner	Helsinki	• Partner negotiation • Customer feedback session	2 h
Hypermedia X Oy				
August 4, 1999	• Managing Director	Helsinki	• Internationalisation strategies	2 h
August 6-8, 1999	• Managing Director • Foreign partners (2) • Client Y representative	Brussels (BEL) Brugge (BEL)	• Internationalisation strategies • Partner search	2 days (participatory observing)
August 17, 1999	• Managing Director	Helsinki	• Personnel strategies	2 h
August 26, 1999	• Client Y representative	Helsinki	• Opinions about HMX Oy • Case creation	1, 5 h
September 20, 1999	• Managing Director	Helsinki	• Client strategies	2 h
October 8, 1999	• Board members x 2	Helsinki	• Financial strategies	1, 5 h
October 13, 1999	• Managing Director • Board member • Potential financial partner	Helsinki	• Financial strategies	2 h
October 25-26, 1999	• Managing Director • Client Y representative • Potential foreign partner • Potential financial partner	Geneve (CH) Moulouse (FRA) München (GER)	• Internationalisation strategies • Financial strategies	2 days (participatory observing)